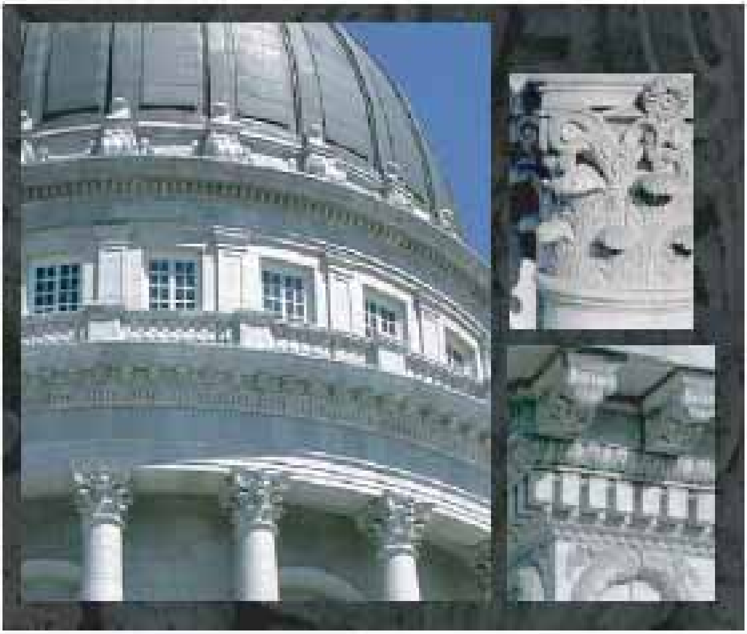
STATE OF UTAH

Comprehensive Annual Financial Report



'07

For the Fiscal Year Ended JUNE 30, 2007

State Of Utah
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For The Fiscal Year Ended June 30, 2007

CONSTITUTIONAL OFFICERS OF THE STATE OF UTAH

Jon M. Huntsman, Jr. .... Governor
Gary R. Herbert .... Lt. Governor
Auston G. Johnson, CPA .... State Auditor
Edward T. Alter, CPA .... State Treasurer
Mark L. Shurtleff .... Attorney General
John L. Valentine .... President of the Senate
Greg J. Curtis .... Speaker of the House
Christine M. Durham .... Chief Justice, Supreme Court

OTHER STATE OFFICIALS

Kimberly K. Hood .... Executive Director, Department of Administrative Services
John C. Reidhead, CPA .... Director, Division of Finance
John E. Nixon, CPA .... Director, Governor's Office of Planning and Budget
Jonathan C. Ball .... Director, Office of the Legislative Fiscal Analyst
John M. Schaff, CIA .... Auditor General, Office of the Legislative Auditor General
Michael E. Christensen .... Director, Office of Legislative Research and General Counsel

ACKNOWLEDGMENTS

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Special appreciation is given to all of the budget and accounting officers throughout the State whose extra time and effort made this report possible.

Department of Administrative Services: Division of Finance Accounting Standards and Financial Reporting Section

State of Utah
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2007

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FINANCIAL SECTION

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the State of Utah conform in all material respects with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board. Preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

A. Reporting Entity

For financial reporting purposes, the State of Utah reporting entity includes the "primary government" and its "component units." The primary government includes all funds, agencies, boards, commissions, and authorities that are considered an integral part of the State's activities. The State's component units are legally separate organizations for which the State's elected officials are financially accountable.

The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and either: (***1***) the ability of the State to impose its will on that organization or; (***2***) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the State. Where the State does not appoint a voting majority of an organization's governing body, GASB standards require inclusion in the reporting entity if an organization is fiscally dependent on the State, its resources are held for the direct benefit of the State or can be accessed by the State, or the relationship is such that it would be misleading to exclude it.

Except where noted below, the State's component units issue their own separate audited financial statements as special-purpose governments engaged only in business-type activities. These financial statements can be obtained from their respective administrative offices or from the Utah State Auditor's Office, PO Box 142310, Salt Lake City, UT 84114.

Entities such as the local school districts and local authorities of various kinds that may only partially meet the criteria for inclusion in this report have not been included. (The State's support of the public education system is reported in the Uniform School Fund, a special revenue fund.)

Blended Component Units

Blended component units provide services entirely or almost entirely to the primary government. GASB standards require this type of component unit to be reported as part of the primary government and blended into the appropriate funds.

Utah State Building Ownership Authority (blended with the primary government's debt service and capital projects funds) — The Authority was created by the Legislature as a body politic and corporate for the purpose of financing, owning, leasing and operating facilities to meet the needs of state government. It is comprised of three members: the Governor or designee, the State Treasurer and the Chair of the State Building Board. Separate financial statements are not required or issued for the Authority.

Discrete Component Units

Discretely presented component units are reported in a separate column and/or rows in each of the government-wide statements to emphasize that they are legally separate from the State. The Governor appoints at least a majority of the governing board members of each of the State's component units, subject in most cases to approval by the Senate. The Utah Housing Corporation is included in the reporting entity because of its ability to issue moral obligation debt of the State and low-income housing tax credits. The other component units are included in the reporting entity because under the criteria established by GASB, the State has the ability to impose its will on these organizations. The colleges and universities, the Public Employees Health Program, Comprehensive Health Insurance Pool and the Schools for the Deaf and Blind are included as component units due to the level of oversight provided by the State. The Governor-appointed board members of the remaining component units can be replaced at will.

The State's major discrete component units are:

Utah Housing Corporation — The Corporation issues bonds to provide capital for housing and home mortgages, especially for low and moderate-income families. Operations are financed from bond proceeds and from mortgage and investment interest and fees.

Public Employees Health Program — This Program provides employee medical and other insurance services predominantly for agencies of the State. It also provides claims processing and insurance services for local governments and other public entities within Utah. The Program is administered by the Utah State Retirement Board.

University of Utah and Utah State University — These universities are funded primarily through state appropriations, tuition, federal grants, and private donations and grants. In addition to instruction, these universities provide research and other services. The operations of the University of Utah also include its hospital and clinics.

The State's nonmajor discrete component units are:

Comprehensive Health Insurance Pool — The Pool is a nonprofit quasi-governmental entity established within the State Insurance Department. It provides access to health insurance coverage for residents of the State who are considered uninsurable.

Utah Schools for the Deaf and the Blind — These Schools provide practical education to individuals with hearing and/or vision impairments. Although not required, these Schools issue separate but unaudited financial statements.

Heber Valley Historic Railroad Authority — The Authority is an independent state agency that maintains and operates a scenic and historic railroad in and around the Heber Valley. The Authority has a separate compilation report, but separate audited financial statements are not required or issued for it.

Utah State Fair Corporation — This is a nonprofit public corporation that operates the State Fair Park and conducts the Utah State Fair and other various expositions and entertainment events. It receives state appropriations for operations and working capital.

Colleges and Universities — Weber State University, Southern Utah University, Salt Lake Community College, Utah Valley State College, Dixie State College of Utah, College of Eastern Utah, Snow College, and the Utah College of Applied Technology. Separate audited financial statements are not required or issued for the Utah College of Applied Technology; however, its significant branch campuses each issue separate audited financial statements.

Fiduciary Component Units

Utah Retirement Systems (pension and other employee benefit trust funds) — Utah Retirement Systems administers pension funds for various public employee retirement systems and plans of the State and its political subdivisions. Utah Retirement Systems is an independent state agency subject to legislative and executive department budgetary examination and comment. The Utah State Retirement Board, a seven-member board, is established by statute to administer the systems and plans, and to serve as investment trustees of the funds. Six members are appointed by the Governor with the advice and consent of the Senate, while the State Treasurer serves as the seventh member. Because of the State's trustee responsibilities for these systems and plans, GAAP requires them to be reported as pension trust funds of the primary government rather than discrete component units. In accordance with GAAP, fiduciary funds and component units that are fiduciary in nature are excluded from the government-wide financial statements.

Related Organization (Excluded from Financial Statements)

Workers' Compensation Fund — This Fund is a nonprofit quasi-public corporation created by the Legislature for a public purpose that provides workers' compensation insurance to private and public employers. The Governor appoints six of the Fund's seven board of directors, but the State's financial accountability for the Fund does not extend beyond making the appointments.

B. **Government-wide and Fund Financial Statements**

Government-wide Financial Statements

The Statement of Net Assets and Statement of Activities report information on all nonfiduciary activities of the primary government and its component units. Primary government activities are distinguished between *governmental* and *business-type* activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Net Assets presents the reporting entities' non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are restricted when constraints placed upon them are either externally imposed or are imposed by constitutional provisions or enabling legislation.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. The State does not allocate general government (indirect) expenses to other functions. Program revenues include: (***1***) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (***2***) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not meeting the definition of program revenues are reported as general revenues.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide statements. For governmental and proprietary funds financial statements, the emphasis is on major individual governmental and enterprise funds, with each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Internal service funds are also aggregated and reported in a separate column on the proprietary funds financial statements.

C. **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the related liability is incurred, regardless of the timing of the cash flows. Nonexchange transactions, in which the State receives value without directly giving equal value in exchange, include taxes, grants, and donations. Tax revenue is recognized in the fiscal year in which the related sales, wages, or activity being taxed occurred. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been met.

Governmental Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or expected to be collected soon enough thereafter to pay liabilities of the current period. For this purpose, the State generally considers taxes and other revenues to be available if the revenues are collected within 45 days after yearend. An exception to this policy is federal grant revenues, which generally are considered to be available if collection is expected within 12 months after yearend.

Expenditures are generally recorded when the related liability is incurred, as under the accrual basis of accounting. However, expenditures for principal and interest on long-term debt are recorded when due or when amounts have been accumulated in the debt service fund for payments of interest to be made early in the following year. Also, expenditures and related liabilities for compensated absences, postemployment benefits, and claims and judgments are recorded only to the extent they have matured (come due for payment).

Major Governmental Funds — The State reports the following major governmental funds:

- **General Fund**. This fund is the principal operating fund of the State. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

- **Education Fund**. This special revenue fund accounts for all revenues from taxes on intangible property or from a tax on income that supports public and higher education.

- **Uniform School Fund**. This special revenue fund accounts for specific revenues and expenditures that support public elementary and secondary schools in the State.

- **Transportation Fund**. This special revenue fund accounts for revenues and expenditures associated with highway construction and maintenance.

- **Transportation Investment Fund**. This special revenue fund accounts for revenue and expenditures associated with Centennial Highway projects and other specific highway projects.

- **Trust Lands Fund**. This is a permanent fund that accounts for land grants and the sale of such lands received from the federal *Enabling Act*. The principal in the fund is perpetual, with the earnings used primarily to support public education.

Nonmajor Governmental Funds — The State's nonmajor governmental funds include other special revenue funds, capital projects funds, and debt service funds. The nonmajor special revenue funds account for specific revenue sources that are legally restricted to expenditures for specific purposes. Examples include tobacco settlement monies, environmental activities, crime victim reparations, debt collections, and rural development programs. The capital projects funds account for the resources used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds. The debt service funds account for resources used for the payment of interest and principal on general long-term debt obligations.

Proprietary Fund Financial Statements

The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements described previously. Proprietary funds include both enterprise and internal service fund types. Enterprise funds report the activities for which fees are charged to external users for goods or services. Internal service funds account for goods and services provided primarily to other agencies or funds of the State, rather than to the general public.

Reporting for business-type activities and enterprise funds follow all GASB pronouncements, and all Financial Accounting Standards Boards (FASB) pronouncements issued on or before November 30, 1989, except those that conflict with a GASB pronouncement. The State has elected not to apply FASB pronouncements issued after November 30, 1989.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition, such as subsidies and investment earnings, are reported as nonoperating.

Major Enterprise Funds — The State reports the following major enterprise funds in its proprietary fund statements:

- **Student Assistance Programs**. These programs make loans to, and purchase loans of, qualified students attending eligible higher education institutions. The programs also guarantee the repayment of student loans made by participating lenders to eligible students.

- **Unemployment Compensation Fund**. This fund pays claims for unemployment to eligible recipients.

- **Water Loan Programs**. This fund provides loans to local governments, water districts, and other entities for the purpose of upgrading water storage facilities and other related structures.

Nonmajor Enterprise Funds — The State's nonmajor enterprise funds include loan programs for communities, low-income housing, agricultural and other purposes; Alcoholic Beverage Control (state liquor stores); Utah Correctional Industries; State Trust Lands Administration; and the Utah Dairy Commission.

Internal Service Funds — The State also reports the internal service fund type in the proprietary funds statements. The activities accounted for in internal service funds include technology services, fleet operations, risk management, copy and mail services, property management, transportation infrastructure, and human resource management. In the government-wide financial statements, internal service funds are included with governmental activities.

Fiduciary Fund Financial Statements

The fiduciary funds account for assets held by the State in a trustee capacity or as an agent for other individuals or organizations. The fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The following fiduciary fund types are reported:

Pension and Other Employee Benefit Trust Funds — These funds account for the plan assets, liabilities, net assets, and changes in net assets of: (***1***) defined benefit pension plans and defined contribution plans administered by Utah Retirement Systems, and (***2***) the State Post-Retirement Benefits Trust Fund, a defined benefit other postemployment health care plan (OPEB Plan), administered by the State.

Investment Trust Fund — This fund is used to account for the investments related to external participants in the Utah State Public Treasurer's Investment Fund.

Private Purpose Trust Funds — These funds report resources of all other trust arrangements in which principal and income benefit individuals, private organizations or other governments. Examples include the Utah Navajo Trust, Unclaimed Property Trust, Employers' Reinsurance Trust, Petroleum Storage Tank Trust, and the Utah Educational Savings Plan Trust.

Agency Funds — These funds account for assets held by the State as an agent for other governmental units, other organizations, or individuals. These funds include fines, forfeitures, tax collections, and withholding taxes for employees.

Component Unit Financial Statements

The combining component unit financial statements are presented in order to provide information on each of the major component units included in the component unit's column of the government-wide statements. The component unit financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The information is presented in order to be consistent with the government-wide statements, and is less detailed than the presentation in each component unit's separately issued financial statements. The component units follow all current GASB pronouncements, and all FASB pronouncements issued on or before November 30, 1989, except those that conflict with a GASB pronouncement. In addition, as allowed by GASB standards, the Public Employees Health Program has elected to apply all applicable FASB pronouncements issued after November 30, 1989, that do not conflict with GASB standards.

D. **Fiscal Yearends**

All funds and discretely presented component units are reported using fiscal years which end on June 30, except the pension and other employee benefit trust funds (fiduciary funds), administered by Utah Retirement Systems, and the Utah Dairy Commission (nonmajor enterprise fund), which have fiscal years ending December 31.

E. **Assets, Liabilities, and Net Assets/Fund Balances**

Cash and Cash Equivalents and Investments

Cash equivalents are generally considered short-term, highly liquid investments with a maturity of three months or less from the purchase date. The Student Assistance Programs (enterprise fund) use a trustee for their long-term investing needs, and they consider any cash and cash equivalents held by their trustee as investments.

All cash deposited with the State Treasurer by state entities is maintained by the Treasurer in various pooled investment funds. The State Treasurer invests the deposited cash, including the cash float, in short-term securities and other investments. All interest revenue is allocated to the General Fund unless state law or trust agreements require allocations of interest to other funds. Funds authorized to receive interest earnings are segregated into separate investment pools, and interest is allocated based on cash balances in the pool.

Investments (including cash equivalents) are under the control of the State Treasurer or other administrative bodies as determined by law. In certain instances, investments may be restricted by law or other legal instruments. Investments are presented at fair value. The fair value of investments is based on published prices and quotations from major investment brokers at current exchange rates, as available. For investments where no readily ascertainable fair value exists, management, in consultation with their investment advisors, have determined the fair values for the individual investments. Investments held as security deposits which are not held for investment purposes are carried at cost. The Utah Retirement Systems' (pension and other employee benefit trust funds) mortgages are valued on an amortized cost basis which approximates fair value, and the fair value of real estate investments has been estimated based on independent appraisals.

The State's Unemployment Compensation Fund (enterprise fund) monies are required by the Social Security Act to be invested in the U.S. Department of Treasury, Bureau of Public Debt Unemployment Trust Fund (BPDUTF), which is not registered with the SEC. The fair value of the position in the BPDUTF is the same as the value of the BPDUTF shares.

Utah Retirement Systems (pension and other employee benefit trust funds) held four types of derivative financial instruments at yearend: futures, currency forwards, options, and swaps. Futures contracts are traded on organized exchanges to minimize credit risk. Currency forwards are entered into in order to hedge the exposure to changes in foreign currency exchange rates on foreign currency dominated portfolio holdings. Utah Housing Corporation (major component unit) enters into various rate swap contracts in order to increase funding capabilities. The Corporation sells variable rate bonds and minimizes the inherent risk with the use of floating-to-fixed interest rate swap contracts. See Note 3 for additional information about derivatives.

Receivables

Accounts receivables in the governmental and business-type activities consist mainly of amounts due from the Federal Government, customers, and others. Receivables from the Federal Government are reasonably assured; accordingly, no allowance for uncollectible accounts has been established.

Notes/mortgages receivable for governmental and business-type activities are primarily long-term loans for local governments and agricultural development, home mortgages, and individual student loans. The interest rates on the loans vary but are generally lower than market rates and, in some cases, are non-interest bearing. Student loans in the Student Assistance Programs (business-type activities) are fixed and variable rate federally insured loans. Student loans are insured at 95 to 100 percent of their principal balance depending on the date disbursed.

Accrued taxes include receivables for taxpayer-assessed taxes where the underlying exchange has occurred in the period ending June 30 or prior, net of applicable estimated refunds and allowances.

Note 5 provides a disaggregation of governmental and business-type receivables, including a breakout of current/noncurrent balances and established allowances.

Inventories and Prepaid Items

Proprietary funds and component units inventories are valued at the lower of cost or market. Cost evaluation methods include first-in-first-out (FIFO), last-in-first-out (LIFO), average cost, weighted average, weighted moving average, and retail inventory method.

Governmental fund inventories are recorded as expenditures when purchased except for Transportation Fund inventories that are recorded as expenditures when consumed. Transportation Fund inventories are valued using a weighted average cost.

Prepaid items related to governmental funds are immaterial and recorded as expenditures in the governmental funds financial statements when paid.

Prepaid items for the Student Assistance Programs (enterprise fund) are primarily guarantor insurance premiums charged at the time loan proceeds are disbursed and are amortized over the estimated lives of the loans using a method which approximates the interest method of amortization.

Capital Assets

Capital assets, which include land, buildings, equipment, and infrastructure (roads, bridges, drainage systems, lighting systems, and similar items), are reported in the applicable governmental or business-type activities columns, or in the component units column on the government-wide Statement of Net Assets. Capital assets of proprietary funds and fiduciary funds are also recorded in their respective fund statements. Capital assets, with the exception of infrastructure, are defined by the State as assets, which cost $5 thousand or more when acquired and have an estimated useful life greater than one year. Infrastructure assets are capitalized if the cost is over $1 million. Purchased or constructed capital assets are recorded at cost or at estimated historical cost where historical cost is not available. Donated fixed assets are valued at their estimated fair value at the date of donation.

Capital assets purchased by governmental funds are recorded as expenditures in the governmental fund financial statements. Interest expense for capital asset construction related to governmental activities is not capitalized. Interest expense incurred during construction of capital facilities related to business-type activities and component units is immaterial and is not capitalized in all cases.

Buildings, equipment, and other depreciable assets are depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Years
Equipment	3–15
Aircraft and Heavy Equipment	5–30
Buildings and Improvements	30–40
Land Improvements	5–20
Infrastructure	15–80

As provided by GASB standards, the State has elected to use the "modified approach" to account for infrastructure assets (roads and bridges) maintained by the State's Department of Transportation. This includes infrastructure acquired prior to fiscal year 1981. Under this approach, depreciation expense is not recorded and only improvements that expand the capacity or efficiency of an infrastructure asset are capitalized. Using this approach requires the State to: (***1***) maintain an inventory of the assets and perform periodic condition assessments; (***2***) estimate each year the annual amount to maintain and preserve the assets at the condition level set by the State; and (***3***) document that the assets are being preserved approximately at or above the condition level set by the State. Other infrastructure, which is primarily maintained by the Department of Natural Resources, is capitalized and depreciated.

Most works of art and historical treasures are not capitalized or depreciated. These assets are held for public exhibition, education, or research rather than financial gain. These assets are also protected, unencumbered, and preserved and subject to policies requiring the proceeds from sales of collection items to be used to acquire other collection items. The State's assets of this nature include the State Fine Art Collection, photographs, prints, paintings, historical documents and artifacts, monuments, statues, and paleontological and archaeological collections.

Accrued Liabilities

Accrued liabilities include the liability for employee payrolls and liabilities accruing over time where demand for payment is due shortly after fiscal yearend. See Note 6 for additional information about accrued liabilities.

Deferred Revenue — Unearned and Unavailable

In the government-wide statements, proprietary fund statements, and fiduciary fund statements, unearned revenue is recorded when cash or other assets are received prior to being earned. In the governmental fund statements, deferred revenue is recorded when revenue is either unearned or unavailable. Deferred revenues for the Student Assistance Programs (enterprise fund) are primarily guarantee fees that are recognized as income over a period of ten years using the sum-of-the-years-digits method.

Policy Claims Liabilities

Policy claims liabilities are for insurance claims incurred prior to the reporting date and are based on actuarial estimates. Policy claims liabilities for Unemployment Insurance are for claims filed as of the reporting date. A substantial portion of policy claims liabilities is long-term in nature. Therefore, claims liabilities are reported as long-term liabilities on the Statement of Net Assets.

Long-term Debt

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, deferred amount on refunding, as well as issuance costs, are deferred and amortized over the life of the bonds using the bonds outstanding method or straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and deferred amount on refunding. Bond issuance costs are reported as deferred charges (assets).

In the governmental fund financial statements, bond premiums and discounts, as well as bond issuance costs, are recognized during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

The *Tax Reform Act of 1986* requires governmental entities issuing tax-exempt bonds to refund to the U.S. Treasury interest earnings on bond proceeds in excess of the yield on those bonds. Governmental entities must comply with arbitrage rebate requirements in order for their bonds to maintain tax-exempt status. Entities are required to remit arbitrage rebate payments for non-purpose interest to the federal government at least once every five years over the life of the bonds. Federal regulations also require the Student Assistance Programs (enterprise fund) to keep the yield on student loans within a designated percentage of the interest cost of the related tax-exempt borrowing. One method of reducing this yield is to make yield reduction payments to the United States Treasury. Estimated yield reduction payments may be made by the end of the tenth year and every fifth year thereafter during the life of the bonds. Some State of Utah bonds may be exempt from the rebate requirements if they meet certain statutory exceptions per the regulations.

Arbitrage liability is treated as an expense in the government-wide Statement of Net Assets and the proprietary fund financial statements when the liability is recognized. Arbitrage liability is recorded as an expenditure in the governmental funds financial statements when the liability is due. At June 30, 2007, the total estimated arbitrage rebate liability in the Student Assistance Programs (enterprise fund) was $72.487 million, of which $70.588 million represents yield reduction payments and $1.899 million represents the estimated liability for non-purpose interest. Other arbitrage liabilities are immaterial.

Compensated Absences and Postemployment Benefits

Employees' vacation leave is accrued at a rate of four hours every two weeks for the first five years of employment, and grows to a rate of seven hours every two weeks after 20 years of employment. There is no requirement to use vacation leave, but a maximum of 40 days may be carried forward at the beginning of each calendar year. Unused vacation leave is paid to employees upon termination. Employees who have a sick leave balance in excess of 144 hours at the beginning of a calendar year are eligible to "convert" up to 40 hours of sick leave if less than that amount is used during the year. Employees may use converted sick leave in place of annual leave. Any balance in converted sick is paid to employees upon termination. This converted sick leave program ends on January 1, 2014. The total liability of the governmental activities for compensated absences is recorded in the government-wide Statement of Net Assets as part of long-term liabilities. However, in accordance with GAAP, the liability is not recorded in the governmental funds financial statements. See Note 10 for additional information about the liability.

Employees earn sick leave at a rate of four hours for each two-week period, with no limit to the amount that can be accumulated. The State does not reimburse employees for unused sick leave upon termination unless employees are eligible for retirement or the sick leave is "converted". Sick leave is expended when used.

At retirement, for participating agencies, an employee receives 25 percent of the value of all unused accumulated sick leave as a mandatory employer contribution into a 401(k) account. Each day of remaining sick leave earned prior to January 1, 2006 may be used to participate in the State's Other Postemployment Benefit Plan (OPEB Plan) to purchase health and life insurance coverage or Medicare supplemental insurance. Any remaining sick leave earned on or after January 1, 2006, is converted to a value (based on the higher of the employee's rate of pay at retirement or average pay rate of retirees in the previous year) and placed in a defined contribution plan – health reimbursement arrangement administered by Utah Retirement Systems. The Annual Required Contribution (ARC) needed to fund current and future liabilities of the OPEB Plan is provided by charges to agency budgets. Payments of postemployment health and life insurance benefits to retirees are made from the OPEB plan that is administered as a single-employer defined benefit healthcare plan. See Note 17 for additional information about the State's OPEB Plan administered as an irrevocable trust.

For administrative purposes, the State maintains compensated absences pools within the General Fund, Uniform School Fund, and Transportation Fund. The ongoing payments from the pools are provided by charges to agency budgets as benefits are earned. Vacation leave taken as time off is paid from current budgets when used. Payment of leave balances at termination is made from the compensated absences pools. Proprietary funds, Utah Schools for the Deaf and the Blind, and private purpose trust funds of the primary government also participate in the pools and the OPEB Plan, and have no liability for leave or postemployment benefits once their contributions have been made.

Compensatory time for overtime worked may be earned up to a maximum of 80 hours. Any overtime exceeding 80 hours is paid when earned. In accordance with GAAP, compensatory time is expended when the leave is taken in governmental funds, but is expensed when earned for budgetary purposes.

Vacation earnings, sick leave earnings, and termination policies vary among component units and from the primary government's policies. Vacation leave is expended when earned and sick leave is expended when used.

Net Assets/Fund Balances

The difference between assets and liabilities is "Net Assets" on the government-wide, proprietary fund, and fiduciary funds financial statements, and "Fund Balance" on the governmental fund financial statements.

In the governmental fund financial statements, fund balances are classified as reserved, designated, or unreserved. Reserves represent those portions of fund balance not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

F. **Revenues and Expenditures/Expenses**

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the State's general policy to use restricted resources first. However, the State has some programs that are funded by appropriations from both unrestricted resources and resources required by law to be deposited in a specific subfund for a specific purpose (which may include restricted resources). In those instances, it is the State's policy to expend those resources proportionally based on the amounts appropriated from each source.

Grants

Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenues when entitlement occurs. All federal reimbursement-type grants are recorded as revenues when the related allowable expenditures are incurred and all applicable eligibility requirements are met.

Federal grants include nonmonetary transactions for food and vaccine commodities. Commodities revenue and expenditures are valued at their federally reported value. Commodity inventories at yearend are immaterial. For the fiscal year ended June 30, 2007, the State reported revenue and expenditures of $10.823 million for commodities in the General Fund, and $11.856 million for commodities in the Uniform School Fund (special revenue fund).

Investment Income

Investment income includes interest, dividends and other earnings, and the change in fair value of investments. Negative investment income is reported where the decrease in the fair value of investments due to market conditions exceeded the other components of investment income.

In accordance with state law, interest and dividend income from investments in the Trust Lands permanent fund and the Tobacco Endowment Fund (nonmajor governmental fund) is assigned to and reported directly in the Uniform School Fund and the General Fund, respectively. One half of the applicable income reported in the General Fund is then transferred back into the Tobacco Endowment Fund to increase the principal in the fund as required by state law.

Retirement and Employee Benefit Costs

Most state employees participate in a defined benefit pension plan and/or defined contribution plan administered by Utah Retirement Systems. Contributions collected for the pension plans and contribution plans and the retirement benefits paid are accounted for in the Pension and Other Employee Benefit Trust Funds. All costs for pension, health, and federal social security contributions are reported as expenditures in the appropriate function in governmental fund types or as expenses in applicable proprietary fund types. Pension and other benefit costs are recognized in the fiscal year in which the underlying payroll cost is incurred.

G. Interfund Transactions

Government-wide Financial Statements

Interfund Activity — In general, eliminations have been made to minimize the double counting of internal activity, including internal service fund type activity. However, interfund services, provided and used between different functional categories, have not been eliminated in order to avoid distorting the direct costs and program revenues of the applicable functions. Operating transfers between governmental and business-type activities are reported at the net amount.

Interfund Balances — Interfund receivables and payables have been eliminated from the government-wide Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

Governmental Fund Financial Statements

Interfund Activity — Interfund transactions for goods sold or services rendered for a price approximating their external exchange value, and employee benefit contributions are accounted for as revenues and expenditures/expenses in the funds involved.

Transfers are used to report flows of cash (or other assets) between funds without equivalent flows of assets in return or a requirement for repayment. The State's transfers are based on legislative appropriations or other legal authority. Transfers are presented in Note 13.

H. Future Changes in Accounting Standards

The governmental Accounting Standards Board has issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This new accounting and reporting standard may impact the State's recognition and timing of pollution liabilities in the government-wide and fund financial statements. The requirements of this Statement are effective for fiscal year 2009 and may require restating of beginning net assets and fund balances. The State is currently not planning to early implement Statement No. 49, and has made no estimation of the effect this Statement will have on the financial statements.

NOTE 2. BEGINNING NET ASSET ADJUSTMENTS AND OTHER CHANGES

Beginning Net Assets Adjustments

Effective July 1, 2006, the Legislature created the Education Fund (major governmental fund) and designated that revenue from taxes on income, in addition to reserves of the Education Budget Reserve Account previously reported as part of the Uniform School Fund (major governmental fund), be reported within this new fund. As a result of this change, a reclassification of $345.77 million was made to reduce beginning fund balance of the Uniform School Fund and increase the beginning fund balance of the Education Fund. This change had no impact on governmental activities as reported on the prior year Statement of Activities.

The State Debt Collection Fund was reevaluated and statutorily changed to a special revenue fund (nonmajor governmental fund and reported as part of Miscellaneous Special Revenue Funds). It was previously reported as an internal service fund. As a result of this change, a reclassification of $942 thousand was made to reduce beginning net assets of internal service funds and increase beginning net assets of nonmajor governmental funds. This change had no impact on governmental activities as reported on the prior year Statement of Activities.

GASB Statement Changes

For the fiscal year ended June 30, 2007, the State implemented the following new accounting standards issued by the Governmental Accounting Standards Board (GASB):

- GASB Statement 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.*

- GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*
- GASB Statement 47, *Accounting for Termination Benefits.*

GASB Statement 43 establishes the financial reporting framework for postemployment healthcare and similar benefit plans (OPEB) when administered as trusts. This Statement provides standards for (***1***) financial reporting of the plan assets, liabilities, net assets, and changes in net assets held in trust for payment of benefits and, (***2***) disclosure of actuarial information about the funded status and funding progress of the plan. As a result, the financial reporting and disclosures related to the State's OPEB Plan were changed. Specific changes are reflected in Note 17.

GASB Statement 45 establishes standards for the accrual basis measurement and recognition of OPEB expense over a period that approximates employees' years of service. In addition, this Statement provides information about actuarial accrued liabilities associated with OPEB Plans and whether and to what extent progress is being made in funding the plans. This Statement was early implemented and prospectively, with no beginning net OPEB obligation.

GASB Statement 47 provides guidance for measuring, recognizing, and reporting liabilities and expense/expenditures related to all termination benefits, including voluntary and involuntary termination benefits. The primary government does not provide termination benefits. Where applicable, the State's colleges and universities (component units) have adopted Statement 47.

The provisions of these new standards have been incorporated into the financial statements and notes.

Unusual Reduction in Actuarial Estimates

The Employers' Reinsurance Trust (private purpose trust fund) is liable for certain injury claims incurred prior to July 1, 1994. The estimated actuarial liability has changed as better information is available from claims being reported and paid. This resulted in a gain of $32.397 million, which is reported as miscellaneous revenue in the Private Purpose Trust Funds column of the Statement of Changes in Fiduciary Net Assets.

The Petroleum Storage Tank Trust (private purpose trust fund) provides coverage to underground petroleum storage tank owners for the cost of physical damage and third party liability claims resulting from leakage of the tanks. The estimated actuarial liability has changed as better information is available from claims being reported and paid. This resulted in a gain of $9.72 million, which is reported as miscellaneous revenue in the Private Purpose Trust Funds column of the Statement of Changes in Fiduciary Net Assets.

NOTE 3. DEPOSITS AND INVESTMENTS

Deposits and investments for the primary government and its discrete component units are governed by the Utah Money Management Act (*Utah Code*, Title 51, Chapter 7) and rules of the State of Utah Money Management Council. However, the Act also permits certain funds that have a long-term perspective to make investments of a long-term nature, such as equities and bond mutual funds. In the primary government these are the Tobacco Endowment (special revenue fund), Employers' Reinsurance Trust (private purpose trust), and Utah Educational Savings Plan Trust (private purpose trust). Exempt from the Act in the primary government are the Trust Lands (permanent fund), Utah Retirement Systems (pension and other employee benefit trust funds) and State Post-Retirement Benefits Trust Fund (OPEB Plan). The discrete component units exempt from the Act are Utah Housing Corporation, Public Employees Health Program, and the college and universities' endowment funds.

A. PRIMARY GOVERNMENT

Custodial Credit Risk — Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, the State's deposits may not be recovered. The Money Management Act requires that deposits be in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Deposits in the bank in excess of the insured amount are uninsured and uncollateralized. Deposits are not collateralized nor are they required to be by state statute. The deposits for the primary government at June 30, 2007, were $248.94 million. Of these, $243.199 million were exposed to custodial credit risk as uninsured and uncollateralized.

Investments

The Money Management Act defines the types of securities authorized as appropriate investments and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

The Act authorizes investments in both negotiable and nonnegotiable deposits of qualified depositories and permitted depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Service or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; obligations, other than mortgage derivative products, issued by U.S. government sponsored enterprises (U.S. Agencies) such as the Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation (Freddie Mac), Federal National Mortgage Association (Fannie Mae), and Student Loan Marketing Association (Sallie Mae); bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; and shares or certificates in a money market mutual fund as defined in the Act.

Statute allows certain funds acquired by gift, devise or bequest to be invested according to Rule 2 of the Money Management Council. Rule 2 allows the State to invest these funds in any of the above investments or in any of the following, subject to satisfying certain criteria: professionally managed pooled or commingled investment funds, or mutual funds which satisfy certain criteria; common stock, convertible preferred stock or convertible bonds; and corporate bonds or debentures. Currently, the Utah Education Savings Trust is the only entity required to comply with Rule 2.

The primary government's investments at June 30, 2007, are presented below. All investments, except those of the Utah Retirement Systems (pension and other employee benefit trust funds), are presented by investment type and debt securities are presented by maturity. The Utah Retirement Systems are presented consistent with their separately issued financial statements by investment type.

Primary Government Investments
(except pension and other employee benefit trust funds)
(Expressed in Thousands)

Investment Type	Fair Value	Investment Maturities (in years): Less Than 1	1–5	6–10	More Than 10
Debt Securities					
U.S. Treasuries	$ 4,756	$ 106	$ 3,550	$ 1,100	$ —
U.S. Agencies	533,116	498,580	31,670	—	2,866
Corporate Debt	7,245,795	7,244,794	1,001	—	—
Negotiable Certificates of Deposit	894,613	894,613	—	—	—
Money Market Mutual Fund	60,000	60,000	—	—	—
Commercial Paper	1,263,102	1,263,102	—	—	—
Bond Mutual Fund *****	725,894	—	—	725,894	—
Repurchase Agreements	15,307	15,307	—	—	—
	10,742,583	$ 9,976,502	$ 36,221	$ 726,994	$ 2,866
Other Investments					
Equity Securities	34,466				
Equity Mutual Funds Securities:					
Domestic	2,092,378				
International	324,126				
U.S. Unemployment Trust Pool	776,395				
Real Estate Held for Investment Purposes	886				
Real Estate Joint Ventures	1,894				
Component Units Investment in Primary Government's Investment Pool	(697,665)				
Total	$13,275,063				

***** At June 30, 2007, the bond mutual fund had an average effective maturity of 7.3 years.

The majority of the primary government's corporate debt securities are variable-rate securities, which adjust periodically to the prevailing market interest rates. Because these securities frequently reprice, interest rate risk is substantially reduced at each periodic reset date. In the table above, variable-rate securities are presented according to the length of time until the next reset date rather than the stated maturity.

In addition, significant funds with a long-term investment perspective have the following mix of investments (percentages are of the fund's total investments). Utah Educational Savings Plan Trust (private purpose trust) – $1.645 billion, 76.4 percent, in domestic equity mutual fund securities; $345.903 million, 16 percent, in bond mutual fund; $163.337 million, 7.6 percent,in international equity mutual fund securities. Trust Lands (permanent fund) – $409.815 million, 44 percent, in domestic equity mutual fund securities; $361.24 million, 38.8 percent, in bond mutual fund; and $160.789 million, 17.2 percent, in international equity mutual fund securities. State Post-Retirement Benefits Trust (OPEB plan) – $10.037 million, 66.8 percent, in bond mutual fund; and $4.99 million, 33.2 percent, in domestic equity mutual fund securities.

Utah Retirement Systems Investments
(pension and other employee benefit trust funds)
At December 31, 2006
(Expressed in Thousands)

Investment Type	Fair Value
Debt Securities – Domestic	$ 3,637,704
Debt Securities – International	851,478
Equity Securities – Domestic	6,099,207
Equity Securities – International	3,064,742
Short-term Securities Pools	2,162,621
Mortgage Loans:	
Collateralized Loans	19
Real Estate Notes	6,829
Real Estate	3,329,763
Private Equity (Venture Capital)	802,584
Absolute Return	1,197,638
Guaranteed Investment Contracts	43,918
Equity Securities – Domestic (Pooled)	442,807
Mutual Fund – International	335,685
Mutual Fund – Balanced	308,677
Investments Held by Broker-dealers	
Under Securities Lending Program:	
U.S. Government and Agency Securities	727,365
Corporate Debt Securities – Domestic	80,076
Debt Securities – International	88,001
Equity Securities – Domestic	966,938
Equity Securities – International	326,137
Total Investments	24,472,189
Securities Lending Collateral Pool	2,256,337
Total Investments	$ 26,728,526

Interest Rate Risk — Investments

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The primary government's policy for managing interest rate risk is to comply with the State's Money Management Act. Section 51–7–11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations to 270–365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding two years. Funds that follow Rule 2 of the Money Management Council may not allow the dollar-weighted average maturity of fixed-income securities to exceed ten years.

The Utah Retirement Systems (URS) (pension and other employee benefit trust funds) manage their exposure to fair value loss arising from increasing interest rates by complying with the following policy:

- For domestic debt securities managers, an individual debt securities investment manager's portfolio shall have an effective duration between 75 and 125 percent of the effective duration of the appropriate index.
- The international debt securities investment managers shall maintain an effective duration of their portfolio between 50 and 150 percent of the appropriate index.

Duration is a measure of a debt investment's exposure to fair value changes arising from changes in interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price.

The URS compares an investment's effective duration against the Lehman Brothers Aggregate Index for domestic debt securities and the Lehman Brothers Global Aggregate Index for international debt securities. The index range at December 31, 2006, was 3.35 – 5.58 for domestic debt securities and 2.65 – 7.95 for international debt securities. At December 31, 2006, no individual debt security investment manager's portfolio was outside of the policy guidelines. At December 31, 2006, the following tables show the investments by investment type, amount and the effective weighted duration.

Utah Retirement Systems
(pension and other employee benefit trust funds)
Debt Securities Investments, Domestic
(Expressed in Thousands)

Investment	Fair Value	Effective Weighted Duration
Asset backed securities	$ 166,924	1.13
Commercial mortgage backed securities	196,910	3.56
Common Stock	34	NA
Convertible equity	2,505	NA
Corporate bonds	529,971	4.52
Corporate convertible bonds	192	NA
Fixed income	826,758	NA
Fixed income derivatives-futures	481,521	5.46
Fixed income derivatives-options	(215)	NA
Fixed income futures	(481,521)	NA
Government agencies	202,874	3.28
Government bonds	465,446	8.30
Government mortgage backed securities	1,452,791	3.94
Index linked government bonds	115,371	4.88
Municipal/provincial bonds	1,347	13.11
Non-government backed C.M.O.'s	465,274	2.27
Other fixed income	18,961	NA
Total debt securities investments, domestic	$ 4,445,143	2.91

Utah Retirement Systems
(pension and other employee benefit trust funds)
Debt Securities Investments, International
(Expressed in Thousands)

Investment	Fair Value	Effective Weighted Duration
Asset backed securities	$ 14,629	1.80
Commercial mortgage backed securities	10,875	2.98
Corporate bonds	436,874	6.13
Government agencies	10,816	1.82
Government bonds	374,624	5.35
Government mortgage backed securities	48,948	3.41
Index linked government bonds	450	—
Municipal/provincial bonds	8,456	6.21
Non-government backed C.M.O.'s	33,806	2.53
Total debt securities investments, international	$ 939,478	5.24

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Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The primary government, with the exception of the Utah Retirement Systems (URS) (pension and other employee benefit trust funds), follows the Money Management Act as previously discussed as its policy for reducing exposure to investment credit risk.

The primary government's rated debt investments as of June 30, 2007, with the exception of URS, were rated by Standard and Poor's and/or an equivalent nationally recognized statistical rating organization and the ratings are presented below using the Standard and Poor's rating scale.

Primary Government Rated Debt Investments
(except pension and other employee benefit trust funds)
(Expressed in Thousands)

	Fair	Quality Ratings			
Debt Investments	**Value**	**AAA**	**AA**	**A**	**BBB**
U.S. Agencies	$ 533,116	$ 270,503	$ —	$ —	$ 261,747
Corporate Debt	$ 7,245,795	$ 663,190	$ 1,476,883	$ 4,325,662	$ 780,060
Negotiable Certificates of Deposit	$ 894,613	$ —	$ 79,998	$ 764,615	$ 50,000
Money Market Mutual Fund	$ 60,000	$ —	$ —	$ —	$ —
Commercial Paper	$ 1,263,102	$ —	$ —	$ —	$ —
Bond Mutual Fund	$ 725,894	$ —	$ —	$ —	$ —
Repurchase Agreements – Underlying:					
U.S. Treasuries	$ 1,481	$ —	$ —	$ —	$ —
U.S. Agencies	$ 13,826	$ 13,826	$ —	$ —	$ —

Continues Below

	Quality Ratings	
Debt Investments	**A1 ***	**Unrated**
U.S. Agencies	$ —	$ 866
Corporate Debt	$ —	$ —
Negotiable Certificates of Deposit	$ —	$ —
Money Market Mutual Fund	$ —	$ 60,000
Commercial Paper	$ 1,263,102	$ —
Bond Mutual Fund	$ —	$ 725,894
Repurchase Agreements – Underlying:		
U.S. Treasuries	$ —	$ 1,481
U.S. Agencies	$ —	$ —

***** A1 is Commercial Paper rating

The URS expects its domestic debt securities investment managers to maintain diversified portfolios by sector and by issuer using the following guidelines:

- U.S. government and agency securities — no restriction.
- Total portfolio quality shall maintain a minimum overall rating of "A" (S&P) or equivalent rating.
- Securities with a quality rating of below BBB– are considered below investment grade. No more than 5 percent of an investment manager's assets at market with a single issuer of 1 percent of the total portfolio can be below investment grade.
- Upon approval, a domestic debt securities investment manager may invest up to 10 percent of the portfolio in non-U.S. dollar denominated bonds.
- Upon approval, the international debt securities investment managers may hold up to 25 percent of the market value of their portfolios in securities rated below investment grade (S&P index BBB– or Moody's index Baa3). The remaining assets shall have on average an investment grade rating.

The weighted quality rating average of the domestic debt securities, excluding pooled investments, at December 31, 2006, is AAA and the fair value of below grade investments was $77.908 million or 1.75 percent of the domestic portfolio. The weighted quality rating average of the international debt securities investments, at December 31, 2006, was AA+ and the fair value of below grade investments is $18.266 million or 1.94 percent of the international portfolio.

The following table presents the URS ratings as of December 31, 2006:

Utah Retirement Systems
(pension and other employee benefit trust funds)
Debt Securities Investments at Fair Value
(Expressed in Thousands)

Quality Rating	Domestic	International	Total
AAA	$ 1,569,080	$ 349,616	$ 1,918,696
AA+	21,175	2,445	23,620
AA	79,052	8,670	87,722
AA–	64,051	73,535	137,586
A+	47,931	27,865	75,796
A	23,520	50,827	74,347
A–	28,798	49,399	78,197
BBB+	57,112	39,503	96,615
BBB	75,896	68,465	144,361
BBB–	31,318	12,938	44,256
BB+	7,941	1,446	9,387
BB	7,146	153	7,299
BB–	7,945	—	7,945
B+	—	555	555
B	16,002	—	16,002
B–	11,961	—	11,961
NR	26,913	16,112	43,025
Total credit risk debt securities	2,075,841	701,529	2,777,370
U.S. Government and Agencies**	1,486,753	40,989	1,527,742
Pooled investments*	882,549	196,960	1,079,509
Total debt securities investments	$ 4,445,143	$ 939,478	$ 5,384,621

* Ratings of pooled investments were unavailable from the custodian.

** Ratings for the U.S. Government and Agencies category were unavailable from the custodian; however, securities issued by the U.S. government and its agencies are generally considered rated AAA or equivalent.

Custodial Credit Risk — Investments

Custodial credit risk for investments is the risk that, in the event of a failure of the counter party, the State will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The primary government does not have a formal policy for custodial credit risk.

The primary government's investments at June 30, 2007, except those of the Utah Retirement Systems (URS) (pension and other employee benefit trust funds), were held by the State or in the State's name by the State's custodial banks; except $15.307 million of repurchase agreements where the underlying securities were uninsured and held by the investment's counterparty, not in the name of the State.

At December 31, 2006, the URS investments were registered in the name of URS and held by their custodians except for $50.453 million of investments that were held by the custodians not in the name of URS and $2.335 million of investments for which exposure to custodial credit risk could not be determined.

Concentration of Credit Risk — Investments

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

Except for the Utah Retirement Systems (URS) (pension and other employee benefit trust funds), the primary government's policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to between 5 and 10 percent depending upon the total dollar amount held in the portfolio. Funds that follow Rule 2 of the Money Management Council are limited to investments in equity securities and fixed income corporate securities to no more than 5 percent of all funds in any one issuer and no more than 25 percent of all funds in any one industry. No more than 5 percent of all funds may be invested in securities of a corporation that has been in continuous operation for less than three years. No more than 5 percent of the outstanding voting securities of any one corporation may be held. In addition, Rule 2 limits investment concentrations in certain types of investments. The Money Management Council limitations do not apply to securities issued by the U.S. government and its agencies.

The primary government had no debt securities investments at June 30, 2007, with more than 5 percent of the total investments in a single issuer.

The URS debt securities investments had no single issuer investments that exceed their portfolio investment guidelines by sector and by issuer as follows:

- AAA/Aaa Debt Securities — no more than 5 percent of an investment manager's assets at market with a single issuer.
- AA–/Aa3 Debt Securities — no more than 4 percent of an investment manager's assets at market with a single issuer.
- A–/A3 Debt Securities — no more than 3 percent of an investment manager's assets at market with a single issuer.
- BBB–/Baa3 Debt Securities — no more than 2 percent of an investment manager's assets at market with a single issuer.
- For Debt Securities — no individual holding shall constitute more than 10 percent of the market value of outstanding debt of a single issuer with the exception of the U.S. government or its agencies, or collateralized mortgage obligations.
- For Domestic Equity Securities — no more than 4 percent of an investment manager's assets at market with a single issuer. Also, no more than 8 percent of an investment manager's assets shall be invested in the equity or REIT securities of any single issuer at market.
- For International Equity Securities — no more than 8 percent of an investment manager's assets at market with a single issuer.

Foreign Currency Risk — Investments

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.
The primary government, except the Utah Retirement Systems (URS) (pension and other employee benefit trust funds), does not have a formal policy to limit foreign currency risk.

The Utah Educational Savings Plan Trust (private purpose trust) has $163.337 million and the Trust Lands (permanent fund) has $160.789 million invested in international equity funds. As such, no currency denomination is presented.

The URS manage their exposure to fair value loss by requiring their international securities investment managers to maintain diversified portfolios by sector and by issuer to limit foreign currency and security risk.

Risk of loss arises from changes in currency exchange rates. The URS exposure to foreign currency risk is presented on the following table.

Utah Retirement Systems
(pension and other employee benefit trust funds)
Foreign Currency Risk
International Investment Securities at Fair Value
At December 31, 2006
(Expressed in Thousands)

Currency	Short Term	Debt	Equity	Total
Argentine peso	$ 5	$ 555	$ —	$ 560
Australian dollar	333	8,221	68,001	76,555
Brazilian real	—	2,735	10,360	13,095
British pound sterling	(427)	81,862	540,229	621,664
Canadian dollar	447	13,104	51,275	64,826
Cayman Islands dollar	—	2,720	—	2,720
Chilean peso	—	896	742	1,638
Chinese vuan renminbi	—	—	3,984	3,984
Danish krone	—	2,823	16,206	19,029
El Salvadoran colon	—	420	—	420
Estonian kroon	—	—	1,937	1,937
Euro	26,875	159,330	685,612	871,817
Hong Kong dollar	(927)	—	55,167	54,240
Hungarian forint	—	926	—	926
Japanese yen	5,796	68,679	484,668	559,143
Kazakhstani tenge	—	579	—	579
Malaysian ringgit	—	—	5,437	5,437
Mexican peso	826	23,540	3,047	27,413
New Zealand dollar	10	—	1,567	1,577
Norwegian krone	—	—	13,727	13,727
Panamanian balboa	—	2,277	1,906	4,183
Polish zloty	—	10,312	—	10,312
Qatari riyal	—	1,106	—	1,106
Russian Federation ruble	—	1,567	—	1,567
Singapore dollar	285	14,473	14,432	29,190
South African rand	—	—	1,412	1,412
South Korean won	43	4,730	25,770	30,543
Swedish krona	657	35,700	43,880	80,237
Swiss franc	657	—	176,834	177,491
Taiwanese new dollar	—	—	9,315	9,315
Thai baht	—	4,466	—	4,466
United Arab Emirates dirham	—	474	—	474
Venezuelan bolivar	—	—	5,097	5,097
International equity mutual fund (various currencies)	—	196,960	1,427,357	1,624,317
Total Securities subject to foreign currency risk	34,580	638,455	3,647,962	4,320,997
United States dollars (securities held by international investment managers)	70,543	301,023	78,602	450,168
Total international investment securities	$ 105,123	$ 939,478	$ 3,726,564	$ 4,771,165

B. **COMPONENT UNITS**

Custodial Credit Risk — Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, the component unit's deposits may not be recovered.

The component units follow the Money Management Act by making deposits only in qualified financial institutions in accordance with the Act. The deposits in the bank in excess of the insured amount are uninsured and uncollateralized. Deposits are not collateralized nor are they required to be by state statute. The deposits for the component units at June 30, 2007, were $98.088 million. Of these, $86.685 million were exposed to custodial credit risk as uninsured and uncollateralized.

Investments

The component units follow the applicable investing criteria described above for the primary government, with the exception of Utah Housing Corporation and Public Employees Health Program which are exempt from the Money Management Act.

College and university funds from gifts, private grants, and the corpus of funds functioning as endowments are invested according to the requirements of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and State Board of Regents Rule 541, Management and Reporting of Institutional Investments (Rule 541) or separate endowment investment policies which have been approved by their Board of Trustees and by the Board of Regents. The UPMIFA and Rule 541 allow the Entity to invest endowment funds (including gifts, devises, or bequests of property of any kind from any source) in any of the above investments or any of the following subject to satisfying certain criteria: professionally managed pooled or commingled investment funds registered with the Securities and Exchange Commission or the Comptroller of the Currency (e.g., mutual funds); professionally managed pooled or commingled investment funds created under 501(f) of the Internal Revenue Code which satisfy the conditions for exemption from registration under Section 3(c) of the Investment Company Act of 1940; any investment made in accordance with the donor's directions in a written instrument; and any alternative investment funds that derive returns primarily from high yield and distressed debt (hedged or non-hedged), private capital (including venture capital, private equity, both domestic and international), natural resources, and private real estate assets or absolute return and long/short hedge funds.

The component units' investments at June 30, 2007, are presented below.

Component Units Investments
(Expressed in Thousands)

		Investment Maturities (in years)				
Investment Type	**Fair Value**	**Less Than 1**	**1–5**	**6–10**	**11–20**	**More Than 20**
Debt Securities						
U.S. Treasuries	$ 403,716	$ 302,007	$ 101,113	$ 49	$ 547	$ —
Government National Mortgage Association	12	—	—	—	12	—
U.S. Agencies	786,919	407,849	133,551	17,106	199,421	28,992
Corporate Debt	52,262	11,905	17,856	17,340	3,035	2,126
Commercial Paper	21,159	21,159	—	—	—	—
Money Market Mutual Funds	245,125	245,125	—	—	—	—
Negotiable Certificates of Deposit	5,781	5,439	342	—	—	—
Municipal/Public Bonds	7,512	335	921	3,939	2,219	98
Repurchase Agreements	46,050	46,050	—	—	—	—
Guaranteed Investment Contracts	278,905	175,914	62,647	18,032	22,312	—
Bond Mutual Funds	151,355	—	5,309	144,013	2,033	—
Securities Lending Cash Collateral Pool	19,823	19,823	—	—	—	—
Utah Public Treasurer's Investment Fund	697,665	697,665	—	—	—	—
	$ 2,716,284	$ 1,933,271	$ 321,739	$ 200,479	$ 229,579	$ 31,216
Other Investments						
Equity Securities:						
Domestic	46,940					
International	1,695					
Equity Mutual Funds Securities:						
Domestic	422,568					
Mutual Fund – U.S. Agencies	12					
Mutual Fund – Real Estate	3,027					
Real Estate Held for Investment Purposes	2,671					
Total	$ 3,193,197					

Interest Rate Risk — Investments

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The component units' policy for managing interest rate risk is the same as described above for the primary government.

Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The component units' policy for reducing exposure to investment credit risk is the same as described above for the primary government. The component units' debt investments as of June 30, 2007, were rated by Standard and Poor's and/or an equivalent nationally recognized statistical rating organization and the ratings are presented below using the Standard and Poor's rating scale.

Component Units Rated Debt Investments
(Expressed in Thousands)

Debt Investments	Fair Value	Quality Ratings AAA	AA	A	BBB
U.S. Agencies	$ 786,919	$ 784,727	$ 51	$ —	$ —
Corporate Debt	$ 52,262	$ 3,721	$ 4,259	$ 25,491	$ 15,824
Commercial Paper	$ 21,159	$ —	$ —	$ —	$ —
Money Market Mutual Funds	$ 245,125	$ 198,351	$ —	$ —	$ —
Negotiable Certificates of Deposit	$ 5,781	$ 1,724	$ —	$ —	$ —
Municipal/Public Bonds	$ 7,512	$ 7,512	$ —	$ —	$ —
Guaranteed Investment Contracts	$ 278,905	$ —	$ —	$ —	$ —
Bond Mutual Funds	$ 151,355	$ —	$ —	$ —	$ —
Securities Lending Cash Collateral Pool	$ 19,823	$ —	$ —	$ —	$ —
Utah Public Treasurer's Investment Fund	$ 697,665	$ —	$ —	$ —	$ —
Repurchase Agreements – Underlying:					
U.S. Agencies	$ 17,475	$ 14,755	$ —	$ —	$ —
Money Market Mutual Funds	$ 28,575	$ —	$ —	$ —	$ —

Continues Below

Debt Investments	Quality Ratings BB	B	A1 *	Unrated
U.S. Agencies	$ —	$ —	$ —	$ 2,141
Corporate Debt	$ 1,039	$ 1,132	$ —	$ 796
Commercial Paper	$ —	$ —	$ 21,159	$ —
Money Market Mutual Funds	$ —	$ —	$ —	$ 46,774
Negotiable Certificates of Deposit	$ —	$ —	$ —	$ 4,057
Municipal/Public Bonds	$ —	$ —	$ —	$ —
Guaranteed Investment Contracts	$ —	$ —	$ —	$ 278,905
Bond Mutual Funds	$ —	$ —	$ —	$ 151,355
Securities Lending Cash Collateral Pool	$ —	$ —	$ —	$ 19,823
Utah Public Treasurer's Investment Fund	$ —	$ —	$ —	$ 697,665
Repurchase Agreements – Underlying:				
U.S. Agencies	$ —	$ —	$ —	$ 2,720
Money Market Mutual Funds	$ —	$ —	$ —	$ 28,575

***** A1 is Commercial Paper rating

Custodial Credit Risk — Investments

Custodial credit risk for investments is the risk that, in the event of a failure of the counter party, the component units will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The component units do not have a formal policy for custodial credit risk.

The various component units' investments at June 30, 2007, were held by the component unit or in the name of the component unit by the component unit's custodial bank or trustee, except the following which were uninsured, were not registered in the name of the component unit, and were held by (expressed in thousands):

Counterparty	
U.S. Treasuries	$ 346,464
U.S. Agencies	$ 367,387
Municipal/Public Bonds	$ 335
Repurchase Agreements	$ 18,887
Equity Securities–Domestic	$ 6,303
Counterparty's Trust Department or Agent	
U.S. Treasuries	$ 30,801
U.S. Agencies	$ 162,864
Corporate Debt	$ 4,536
Municipal/Public Bonds	$ 534
Repurchase Agreements	$ 24,897
Equity Securities–Domestic	$ 6,252

Concentration of Credit Risk — Investments

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.
Except for Utah Housing Corporation and Public Employees Health Program, the component units' policy for reducing this risk of loss is the same as described above for the primary government for non-endowment funds. For college and university endowments funds, their policy for reducing this risk of loss is to follow the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and State Board of Regents Rule 541, Management and Reporting of Institutional Investments (Rule 541) or separate endowment investment policies which have been approved by their Board of Trustees and by the Board of Regents.

The Utah Housing Corporation places no limit on the amount the Corporation may invest in any one issuer. More than five percent of the Corporation's investments are in Trinity Guaranteed Investment Contracts, the Federal National Mortgage Association, and CDC Guaranteed Investment Contracts. These investments are 12.36 percent, 11.83 percent, and 9.42 percent, respectively, of the Corporation's total investments.

Utah State University had more than five percent of its investments in the Federal Home Loan Bank, the Federal National Mortgage Association, and the Federal Home Loan Mortgage Corporation. These investments are 35 percent, 23.7 percent, and 12.25 percent, respectively, of the University's total investments.

Public Employees Health Program had more than five percent of its investments in U.S. Government and U.S. Government Agency securities.

C. Securities Lending

The Utah Retirement Systems (pension and other employee benefit trust funds) and the Public Employees Health Program (component unit) participate in security lending programs as authorized by their Boards. The types of securities lent are U.S. government securities, equity securities, and corporate bonds and notes. Under these programs, securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash, government securities, and irrevocable bank letters of credit equal to 102 percent of the market value of the domestic securities on loan and 105 percent of the market value of the international securities on loan, with a simultaneous agreement to return the collateral for the same securities in the future. There are no restrictions on the amount of loans that can be made. For both state entities, their custodial bank is the agent for its securities lending program. Securities under loan are maintained in both state entities' financial records. Corresponding liabilities for collateral received are recorded at the fair value.

At yearend, neither the Utah Retirement Systems nor Public Employees Health Program had any credit risk exposure to borrowers because the collateral exceeded the amount borrowed. The securities on loan at yearend for the entities were $2.189 billion and $19.52 million, respectively, and the collateral received for those securities on loan was $2.256 billion and $19.823 million (includes $2.338 million of non-cash collaterals), respectively, with carrying amount and fair value being the same. Under the terms of the lending agreement, both state entities are indemnified against loss should the lending agent be unable to recover borrowed securities and distributions due to borrower insolvency or failure of the lending agent to properly evaluate the creditworthiness of the borrower. In addition, they are indemnified against loss should the lending agent fail to demand adequate and appropriate collateral on a timely basis. All securities loaned can be terminated on demand by either the state entity or the borrower. Cash collateral is invested in the lending agent's short-term investment pool. The short-term investment pool guidelines specify that a minimum of 20 percent of the invested cash collateral is to be available each business day and that the dollar weighted average maturity of holdings should not exceed 60 days. The relationship between the maturities of the short-term investment pool and each of the state entities' loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the state entities cannot determine. Since the securities lending collateral is in a pool maintained by the custodial bank, the state entities do not have the ability to pledge or sell the securities, and it is not necessary to report the total income and expenses of securities lending.

D. Derivative Financial Instruments

Utah Retirement Systems

The Utah Retirement Systems (URS) (pension and other employee benefit trust funds) invests in derivative financial investments as authorized by Board policy. The derivatives are reported at their fair values on the statement of net assets. Derivatives are financial arrangements between two parties whose payments are based on, or "derived" from the performance of some agreed upon benchmark. At December 31, 2006, URS had four types of derivative financial investments: futures, currency forwards, options, and swaps.

Futures represent commitments to purchase (asset) or sell (liability) securities at a future date and at a specified price. Futures contracts are traded on organized exchanges (exchange traded), thereby minimizing URS's credit risk. The net change in the futures contract value is settled daily in cash with the exchanges. Net gains or losses resulting from the daily settlements are included with trading account securities gains (losses) in the Statement of Changes in Net Assets. At December 31, 2006, URS investments had the following futures balances (expressed in millions):

	Value Covered By Contract
Long-cash and cash equivalent futures	$ 203,440
Short-cash and cash equivalent futures	$ (177,874)
Long-equity futures	$ 1,142,834
Short-equity futures	$ (114,860)
Long-debt securities futures	$ 554,671
Short-debt securities futures	$ (73,150)

Currency forwards represent forward foreign exchange contracts that are entered into in order to hedge the exposure to changes in foreign currency exchange rates on the foreign currency dominated portfolio holdings. A forward foreign exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in net realized gains or losses on foreign currency related transactions. At December 31, 2006, URS investments included the following currency forwards balances (expressed in billions):

Currency forwards (*pending foreign exchange purchases)*	$ 1,286
Currency forwards (*pending foreign exchange sales)*	$ (1,287)

Options represent or give buyers the right, but not the obligation, to buy or sell an asset at a preset price over a specific period. The option's price is usually a small percentage of the underlying asset's value. As a writer of financial options, URS receives a premium at the outset of the agreement and bears the risk of an unfavorable change in the price of the financial instrument underlying the option. As a purchaser of financial options, URS pays a premium at the outset of the agreement and the counterparty bears the risk of an unfavorable change in the price of the financial instrument underlying the option. At December 31, 2006, URS investments had the following options balances (expressed in thousands):

	Value Covered By Contract
Cash and cash equivalent purchased call options	$ 680
Cash and cash equivalent purchased put options	$ 169
Fixed income written put options	$ (620)
Fixed income written call options	$ 405

Swaps represent an agreement between two or more parties to exchange sequences of cash flows over a period in the future. At the end of the year, URS had two different types of swap arrangements: interest rate swaps and credit default swaps. In the most common type of interest rate swap arrangement, one party agrees to pay fixed interest payments on designated dates to a counter party who, in turn, agrees to make return interest payments that float with some reference rate. The interest rate swaps allowed URS to convert their long-term variable interest rate credit facility loans into fixed interest rate loans. The credit default swaps protect the rental cash flows on one of URS real estate investments in case the major tenant defaults on its lease contract. Gains and losses on swaps are determined based on market values and are recorded in the Statement of Changes in Net Assets. At December 31, 2006, URS investments had the following swap market value balances:

Utah Retirement Systems (pension and other employee benefit trust funds)
Interest Rate Swaps
December 31, 2006
(Expressed in Thousands)

	Outstanding Notational Amount*	Interest Rate**	Maturity Date	Fair Value
Interest Rate Swaps				
Interest Rate Swaps	$1,052,448	4.057 – 5.464 % LIBOR	2008–2021	$ 8,173
Total	$1,052,448			$ 8,173
Credit Facility Swaps				
Morgan Stanley Credit Default Swaps	$ 111,000		9/29/2009	$ (228)

* Base used to calculate interest
** London Interbank Offered Rate

Utah Housing Corporation

The following are disclosures for derivative financial instruments held by Utah Housing Corporation (major component unit).

Objective — In order to protect against the potential of rising interest rates, the Corporation has entered into 68 separate pay-fixed, receive-variable interest rate swaps and one Interest Rate Cap Agreement as of June 30, 2007. The cost of these swaps is less than what the Corporation would have paid to issue fixed rate debt. The Corporation's swaps are all similar in nature and summary information is included in this report. More detailed information about each swap is included in the Corporation's separately issued financial statements.

Terms, Fair Values, and Credit Risk — The terms, including the fair values of the outstanding swaps as of June 30, 2007, are summarized below. The notional amounts of the swaps matched the principal amounts of the associated debt at the time of issuance. Except as discussed under rollover risk, the Corporation's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated bonds payable.

Utah Housing Corporation
Interest Rate Swap and Cap Agreements
June 30, 2007
(Expressed in Thousands)

Outstanding Notational Amount	Issue Dates	Fixed Rate Paid by the Corporation	Variable Rate Received from Counterparty	Fair Values	Termination Dates
Interest Rate Swap Agreements					
$ 67,405	2000–2006	4.640% to 7.760 %	LIBOR* plus .15 %	$ (2,618)	2008–2029
589,515	2000–2006	3.939% to 5.610 %	BMA** plus .27 %	(19,117)	2012–2030
37,300	2007	3.883% to 3.950 %	BMA** plus .11 %	232	2026–2030
$ 694,220				$ (21,503)	
Interest Rate Cap Agreements					
$ 1,785	2005	1.02 %	Excess of BMA ** over 5.73 %	$ (216)	2027

* London Interbank Offered Rate
** The Bond Market Association Municipal Swap Index

Fair Values — The fair values of swaps are a function of market interest rates and the remaining term on the swap contracts. The fair values of the swap contracts were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Credit Risk — The Corporation executes swap transactions with two counterparties, Lehman Brothers Financial Products, Inc. and Lehman Brothers Derivative Products, Inc. Both counterparties are rated AAA/Aaa, which mitigates any credit risk associated with the derivatives' fair value.

Basis Risk — The Corporation's tax-exempt variable-rate bond coupon payments are equivalent to the BMA rate. Its taxable variable-rate bond coupon payments are equivalent to the LIBOR rate. The Corporation is therefore not exposed to basis risk except as disclosed below under Tax Risk/Cross-over.

Tax Risk / Cross-over — Twenty-seven of the Corporation's BMA based swaps are exposed to basis risk should Congress or other federal branches of government propose or pass legislation (a "Tax Event"), that causes the relationship between LIBOR and BMA to exceed 75 percent for a continuous period of 180 days. If both of these events occur the result would be that the swap provider would pay the Corporation 68 percent of the LIBOR rate regardless of what the BMA rate is. In addition, various of the Corporation's BMA based Cross-over Swaps are also exposed to basis risk if the LIBOR rate is 3.5 percent or greater and in some cases 4 percent or greater. When the LIBOR rate is greater than 3.5 or 4 percent, the provider will pay the Corporation 68 percent of the LIBOR rate regardless of what the BMA rate is. As of June 30, 2007, no "Tax Event" or "Cross-over Event" has occurred.

Termination Risk — The Corporation or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the contract.

Rollover Risk — The Corporation is exposed to rollover risk on swaps that mature or may be terminated prior to the maturity of the associated debt. When these swaps terminate, or in the case of the termination option, the Corporation will not realize the synthetic rate offered by the swaps on the underlying debt issues. As of June 30, 2007, the Corporation's swap termination dates ranged from 0.5 to 24.5 years prior to the maturity dates of the associated debt.

NOTE 4. INVESTMENT POOL

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF) investment pool. The PTIF is available for investment of funds administered by any Utah public treasurer. Participation is not required and no minimum balance or minimum/maximum transaction is required. State agencies and funds that are authorized to earn interest also invest in the PTIF as an internal investment pool. No separate report as an external investment pool has been issued for the PTIF.

The PTIF is not registered with the SEC as an investment company and is not rated. The PTIF is authorized and regulated by the Utah Money Management Act, (*Utah Code* Title 51, Chapter 7). The Act establishes the Money Management Council, which oversees the activities of the State Treasurer and the PTIF. The Act lists the investments that are authorized which are high-grade securities and, therefore, there is very little credit risk except in the most unusual and unforeseen circumstances. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated to participants on the ratio of the participant's share to the total funds in the PTIF based on the participant's average daily balance. The PTIF allocates income and issues statements on a monthly basis. Twice a year, at June 30 and December 31, which are the accounting periods for public entities, the investments are valued at fair value and participants are informed of the fair value valuation factor that enables them to adjust their statement balances to fair value.

The PTIF condensed financial statements, inclusive of external and internal participants along with the portfolio statistics for the fiscal year ended June 30, 2007, are as follows:

Public Treasurer's Investment Fund
Statement of Net Assets
June 30, 2007
(*Expressed in Thousands*)

Assets	
Cash and Cash Equivalents	$ 326,992
Investments	9,671,239
Interest Receivable	55,926
Total Assets	$ 10,054,157
Net Assets Consist of:	
External Participant Account Balances	$ 5,449,654
Internal Participant Account Balances:	
Primary Government	3,898,418
Component Units	693,639
Undistributed Reserves and Unrealized Gains/Losses	12,446
Net Assets	$ 10,054,157
Participant Account Balance Net Asset Valuation Factor	.999798

Public Treasurer's Investment Fund
Statement of Changes in Net Assets
For the Fiscal Year Ended June 30, 2007
(*Expressed in Thousands*)

Additions	
Pool Participant Deposits	$ 10,803,286
Investment Income:	
Investment Earnings	483,744
Fair Value Increases (Decreases)	576
Total Investment Income	484,320
Less Administrative Expenses	(222)
Net Investment Income	484,098
Total Additions	11,287,384
Deductions	
Pool Participant Withdrawals	8,897,524
Earnings Distributions	481,753
Total Deductions	9,379,277
Net Increase From Operations	1,908,107
Net Assets	
Beginning of Year	8,146,050
Net Assets – End of Year	$ 10,054,157

Public Treasurer's Investment Fund
Portfolio Statistics

June 30, 2007	Range of Yields	Weighted Average Maturity
Money Market Mutual Fund	5.20% – 5.22%	41.5 days
Certificates of Deposit	5.20% – 5.50%	63.42 days
U.S. Agencies	4.00% – 5.86%	152.3 days
Corporate Bonds and Notes	4.85% – 5.67%	60.19 days
Commercial Paper	5.20% –5.41%	50.34 days

June 30, 2007	Weighted Average Yield	Average Adjusted Maturity
Total Investment Fund	5.25%	63.74 days

Deposits and Investments

The following disclosure of deposits and investments is for the PTIF, which includes external and internal participants. These assets are also included in the Note 3 disclosures of deposits and investments for the primary government. To avoid duplication, some of the detailed information in Note 3 has not been repeated in this note.

Custodial Credit Risk — Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, the PTIF's deposits may not be recovered. The PTIF follows the Money Management Act by making deposits only in qualified financial institutions in accordance with the Act.

The deposits in the bank in excess of the insured amount are uninsured and uncollateralized. Deposits are not collateralized nor are they required to be by state statute. The deposits for the PTIF at June 30, 2007, were $76.773 million. Of those, $75.973 million were exposed to custodial credit risk as uninsured and uncollateralized.

Investments

The PTIF follows the Money Management Act by investing only in securities authorized in the Act. See Note 3 for information on authorized investments.

The PTIF investments at June 30, 2007, are presented below.

Public Treasurer's Investment Fund Investments
(Expressed in Thousands)

		Investment Maturities (in years)	
Investment Type	Fair Value	Less Than 1	1–5
Debt Securities			
U.S. Agencies	$ 522,585	$ 497,496	$ 25,089
Corporate Bonds and Notes	7,238,462	7,238,462	—
Negotiable Certificates of Deposit	894,314	894,314	—
Money Market Mutual Fund	60,000	60,000	—
Commercial Paper	1,249,326	1,249,326	—
	$ 9,964,687	$ 9,939,598	$ 25,089

The majority of the PTIF's U.S. agencies and corporate debt securities are variable-rate securities, most of which reset every three months to the market interest rate. Because these securities frequently reprice to prevailing market rates, interest rate risk is substantially reduced at each periodic reset date. In the table above, variable-rate securities are presented according to the length of time until the next reset date rather than the stated maturity.

Interest Rate Risk — Investments

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The PTIF's policy for managing interest rate risk is to comply with the State's Money Management Act. See Note 3 for information on requirements of the Act related to interest rate risk.

Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The PTIF follows the Money Management Act as its policy for reducing exposure to investment credit risk. The PTIF's rated debt investments as of June 30, 2007, were rated by Standard and Poor's and/or an equivalent nationally recognized statistical rating organization and the ratings are presented below using the Standard and Poor's rating scale.

Public Treasurer's Investment Fund Rated Debt Investments
(Expressed in Thousands)

Rated Debt Investments	Fair Value	Quality Ratings AAA	AA	A	BBB
U.S. Agencies	$ 522,585	$ 260,838	$ —	$ —	$ 261,747
Corporate Bonds and Notes	$ 7,238,462	$ 663,190	$ 1,476,883	$ 4,318,329	$ 780,060
Negotiable Certificates of Deposit	$ 894,314	$ —	$ 79,998	$ 764,316	$ 50,000
Money Market Mutual Fund	$ 60,000	$ —	$ —	$ —	$ —
Commercial Paper	$ 1,249,326	$ —	$ —	$ —	$ —

Continues Below

Rated Debt Investments	Quality Ratings A1 *	Not Rated
U.S. Agencies	$ —	$ —
Corporate Bonds and Notes	$ —	$ —
Negotiable Certificates of Deposit	$ —	$ —
Money Market Mutual Fund	$ —	$ 60,000
Commercial Paper	$ 1,249,326	$ —

***** A1 is Commercial Paper rating

Concentration of Credit Risk — Investments

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The PTIF's policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5 percent of the total dollar amount held in the portfolio. The Money Management Council limitations do not apply to securities issued by the U.S. government and its agencies. The PTIF had no debt securities investments at June 30, 2007, with more than 5 percent of the total investments in a single issuer.

NOTE 5. RECEIVABLES

Receivables as of June 30, 2007, consisted of the following (in thousands):

	Accounts Receivable					
	Federal	Customer	Other	Interest	Taxes	Notes/ Mortgages
Governmental Activities:						
General Fund	$ 246,144	$ 206,368	$ 3,309	$ 31	$ 393,019	$ 4,748
Education Fund	—	1,409	—	—	826,614	—
Uniform School Fund	52,056	8	148	—	950	8,864
Transportation Fund	56,860	8,657	3,115	—	69,892	360
Transportation Investment Fund	—	58	—	—	24,480	—
Trust Lands	—	—	16,137	2,148	—	2,400
Nonmajor Funds	—	9,305	—	46	—	155
Internal Service Funds	—	5,664	—	—	—	850
Adjustments:						
Fiduciary Funds	—	—	6,405	—	—	—
Total Receivables	355,060	231,469	29,114	2,225	1,314,955	17,377
Less Allowance for Uncollectibles:						
General Fund	—	(53,900)	—	—	(15,331)	(1,207)
Education Fund	—	—	—	—	(105,264)	—
Transportation Fund	—	—	(292)	—	(1,861)	—
Transportation Investment Fund	—	—	—	—	(1,439)	—
Receivables, net	$ 355,060	$ 177,569	$ 28,822	$ 2,225	$ 1,191,060	$ 16,170
Current Receivables	$ 355,060	$ 154,511	$ 13,099	$ 2,225	$ 1,136,985	$ 2,640
Noncurrent Receivables	—	23,058	15,723	—	54,075	13,530
Total Receivables, net	$ 355,060	$ 177,569	$ 28,822	$ 2,225	$ 1,191,060	$ 16,170
Business-type Activities:						
Student Assistance Programs	$ 20,247	$ 1,385	$ —	$ 21,758	$ —	$ 1,777,338
Unemployment Compensation	143	79,814	—	—	—	—
Water Loan Programs	—	912	—	10,226	—	519,217
Nonmajor Funds	242	10,283	—	4,434	—	320,353
Total Receivables	20,632	92,394	—	36,418	—	2,616,908
Less Allowance for Uncollectibles:						
Student Assistance Programs	—	—	—	—	—	(3,039)
Unemployment Compensation	—	(9,385)	—	—	—	—
Receivables, net	$ 20,632	$ 83,009	$ —	$ 36,418	$ —	$ 2,613,869

Accounts receivable balances are an aggregation of amounts due from the federal government, customers, and others. Receivables from customers include charges for services to local governments, fees and fines issued by the courts and corrections, employer contributions for unemployment benefits, and receivables as a result of overpayments to individuals receiving state assistance.

Receivables for fiduciary funds listed above represent amounts due from fiduciary funds that were reclassified as external receivables on the government-wide Statement of Net Assets.

Aggregated receivables for component units at June 30, 2007, were $1.55 billion for major component units and $59.792 million for nonmajor component units, net of an allowance for doubtful accounts of $54.222 million and $4.587 million, respectively.

NOTE 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2007, consisted of the following (in thousands):

	Salaries/ Benefits	Service Providers	Vendors/ Other	Government	Tax Refunds	Interest	Total
Governmental Activities:							
General Fund	$ 40,270	$ 238,278	$ 41,261	$ 71,366	$ 5,623	$ 63	$ 396,861
Education Fund	—	—	—	—	58,936	—	58,936
Uniform School Fund	1,704	2,098	15,732	15,922	—	—	35,456
Transportation Fund	4,493	—	104,176	42,111	1,596	—	152,376
Nonmajor Funds	55	—	46,655	37	—	30,684	77,431
Internal Service Funds	4,019	3	14,911	47	—	5	18,985
Adjustments:							
Fiduciary Funds	—	—	—	3,002	—	—	3,002
Other	—	—	—	—	—	1,450	1,450
Total Governmental Activities	$ 50,541	$ 240,379	$ 222,735	$ 132,485	$ 66,155	$ 32,202	$ 744,497
Business-type Activities:							
Student Assistance Programs	$ 1,112	$ —	$ 9,205	$ 785	$ —	$ 9,125	$ 20,227
Unemployment Compensation	—	725	—	28	—	—	753
Water Loan Programs	—	—	306	—	—	—	306
Nonmajor Funds	1,091	—	10,596	—	—	215	11,902
Adjustments:							
Fiduciary Funds	—	—	—	109	—	—	109
Total Business-type Activities	$ 2,203	$ 725	$ 20,107	$ 922	$ 0	$ 9,340	$ 33,297

Accounts payable and accrued liability balances are an aggregation of amounts due to: (***1***) state employees for salaries/benefits; (***2***) service providers for childcare, job services and health services; (***3***) vendors and miscellaneous suppliers; (***4***) local and federal governments for services; (***5***) individuals and others as a result of tax overpayments; and (***6***) interest due on bonds and other obligations.

Adjustments for fiduciary funds listed above represent amounts due to fiduciary funds that were reclassified as external payables on the government-wide Statement of Net Assets. Other adjustments are due to differences in the presentation and the basis of accounting between the fund financial statements and the government-wide Statement of Net Assets.

NOTE 7. INTERFUND BALANCES AND LOANS

Interfund Balances

Interfund balances at June 30, 2007, consisted of the following (in thousands):

Due to General Fund from:	
Uniform School Fund	$ 179
Transportation Fund	524
Trust Lands Fund	88
Nonmajor Governmental Funds	3,031
Unemployment Compensation Fund	7,384
Water Loan Programs	89
Nonmajor Enterprise Funds	10,919
Internal Service Funds	5,092
Fiduciary Funds	2,700
Total due to General Fund from other funds	$ 30,006
Due to Education Fund from	
Unemployment Compensation Fund	$ 156
Due to Uniform School Fund from:	
General Fund	$ 362
Nonmajor Enterprise Funds	3,851
Internal Service Funds	2
Total due to Uniform School Fund from other funds	$ 4,215
Due to Transportation Fund from:	
General Fund	$ 144
Transportation Investment Fund	46,316
Nonmajor Governmental Funds	6
Internal Service Funds	2,322
Total due to Transportation Fund from other funds	$ 48,788
Due to Transportation Investment Fund from	
Transportation Fund	$ 3
Due to Trust Lands Fund from	
Nonmajor Enterprise Funds	$ 1,414
Due to Nonmajor Governmental Funds from:	
General Fund	$ 2,562
Transportation Fund	11
Nonmajor Enterprise Funds	377
Internal Service Funds	515
Fiduciary Funds	3,703
Total due to Nonmajor Governmental Funds from other funds	$ 7,168
Due to Water Loan Programs from:	
General Fund	$ 210
Trust Lands Fund	47
Nonmajor Enterprise Funds	22
Total due to Water Loan Programs from other funds	$ 279
Due to Nonmajor Enterprise Funds from:	
General Fund	$ 721
Uniform School Fund	9
Transportation Fund	54
Trust Lands	43
Nonmajor Governmental Funds	8,997
Internal Service Funds	232
Total due to Nonmajor Enterprise Funds from other funds	$ 10,056
Due to Internal Service Funds from:	
General Fund	$ 26,145
Uniform School Fund	250
Transportation Fund	5,346
Nonmajor Governmental Funds	1,802
Nonmajor Enterprise Funds	591
Internal Service Funds	25
Fiduciary Funds	2
Total due to Internal Service Funds from other funds	$ 34,161
Due to Fiduciary Funds from:	
General Fund	$ 2,652
Uniform School Fund	74
Transportation Fund	271
Trust Lands	4
Nonmajor Governmental Funds	1
Nonmajor Enterprise Funds	109
Total due to Fiduciary Funds from other funds	$ 3,111
Total Due to/Due froms	$ 139,357

These balances resulted from the time lags between the dates that: (***1***) interfund goods and services are provided or reimbursable expenditures occur; (***2***) transactions are recorded in the accounting system; and (***3***) payments between funds are made.

Interfund Loans

Interfund loans at June 30, 2007, consisted of the following (in thousands):

Payable to General Fund from	
Internal Service Funds	$ 33,816
Payable to Uniform School Fund from	
Internal Service Funds	89
Total Interfund Loans Receivable/Payable	$ 33,905

The interfund loans receivable/payable balances consist of revolving loans with Internal Service Funds. The balance payable to the General Fund from Internal Service Funds of $33.816 million includes $13.534 million that is not expected to be repaid within one year.

NOTE 8. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, was as follows (in thousands):

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities:				
Capital Assets not being Depreciated:				
Land and Related Assets	$ 795,992	$ 57,936	$ (4,483)	$ 849,445
Infrastructure	7,702,596	190,526	(34,367)	7,858,755
Construction-In-Progress	803,907	718,204	(307,900)	1,214,211
Total Capital Assets not being Depreciated	9,302,495	966,666	(346,750)	9,922,411
Capital Assets being Depreciated:				
Buildings and Improvements	1,180,763	44,771	(8,865)	1,216,669
Infrastructure	33,298	623	—	33,921
Machinery and Equipment	464,259	41,482	(20,526)	485,215
Total Capital Assets being Depreciated	1,678,320	86,876	(29,391)	1,735,805
Less Accumulated Depreciation for:				
Buildings and Improvements	(399,310)	(33,363)	5,490	(427,183)
Infrastructure	(7,402)	(1,403)	—	(8,805)
Machinery and Equipment	(326,836)	(33,712)	17,181	(343,367)
Total Accumulated Depreciation	(733,548)	(68,478)	22,671	(779,355)
Total Capital Assets being Depreciated, Net	944,772	18,398	(6,720)	956,450
Capital Assets, Net	$10,247,267	$ 985,064	$ (353,470)	$10,878,861
Business-type Activities:				
Capital Assets not being Depreciated:				
Land and Related Assets	$ 27,194	$ 2,611	$ (19,770)	$ 10,035
Construction-In-Progress	889	4,456	(4,355)	990
Total Capital Assets not being Depreciated	28,083	7,067	(24,125)	11,025
Capital Assets being Depreciated:				
Buildings and Improvements	44,399	3,852	—	48,251
Infrastructure	204	100	—	304
Machinery and Equipment	14,851	955	(732)	15,074
Total Capital Assets being Depreciated	59,454	4,907	(732)	63,629
Less Accumulated Depreciation for:				
Buildings and Improvements	(9,224)	(1,245)	—	(10,469)
Infrastructure	(55)	(6)	—	(61)
Machinery and Equipment	(11,284)	(900)	522	(11,662)
Total Accumulated Depreciation	(20,563)	(2,151)	522	(22,192)
Total Capital Assets being Depreciated, Net	38,891	2,756	(210)	41,437
Capital Assets, Net	$ 66,974	$ 9,823	$ (24,335)	$ 52,462

Construction-in-progress of governmental activities includes amounts for buildings the State is constructing for colleges and universities (component units) that are funded by state appropriations or state bond proceeds. As the buildings are completed, the applicable amounts are deleted from construction-in-progress of governmental activities and “transferred” to the colleges and universities. For fiscal year 2007, $67.362 million of buildings were completed for colleges and universities. On the government-wide statement of activities, the building “transfers” are reported as higher education expenses of governmental activities and as program revenues of component units.

Depreciation expense of governmental activities was charged to functions as follows (in thousands):

General Government	$ 9,608
Human Services and Youth Corrections	5,063
Corrections, Adult	5,117
Public Safety	5,371
Courts	5,227
Health and Environmental Quality	2,692
Employment and Family Services	1,876
Natural Resources	6,830
Community and Culture	476
Business, Labor, and Agriculture	949
Public Education	513
Transportation	8,400
Depreciation on capital assets of the State's internal service funds is charged to the various functions based on their usage of services provided	16,356
Total	$ 68,478

Discretely Presented Component Units

The following table summarizes net capital assets reported by the discretely presented component units (in thousands):

	Utah Housing Corporation	Public Employees Health Program	University of Utah	Utah State University	Nonmajor Component Units	Total
Capital Assets not being Depreciated:						
Land and Other Assets	$ 1,472	$ —	$ 60,785	$ 18,689	$ 69,438	$ 150,384
Construction-In-Progress	—	—	92,028	16,983	25,313	134,324
Total Capital Assets not being Depreciated	1,472	—	152,813	35,672	94,751	284,708
Capital Assets being Depreciated:						
Building and Improvements	5,064	—	1,310,915	551,837	1,077,381	2,945,197
Infrastructure	—	—	156,032	—	26,390	182,422
Machinery and Equipment	1,509	3,157	697,820	173,245	170,724	1,046,455
Total Capital Assets being Depreciated	6,573	3,157	2,164,767	725,082	1,274,495	4,174,074
Less Total Accumulated Depreciation	(1,514)	(2,445)	(1,069,148)	(298,180)	(493,333)	(1,864,620)
Total Capital Assets being Depreciated, Net	5,059	712	1,095,619	426,902	781,162	2,309,454
Discretely Presented Component Units – Capital Assets, Net	$ 6,531	$ 712	$ 1,248,432	$ 462,574	$ 875,913	$ 2,594,162

The State had long-term construction project commitments totaling $ 243.257 million at June 30, 2007. The following construction projects have remaining commitments and represent reservations of fund balance in the Capital Projects Funds (nonmajor governmental funds):

Capital Projects Fund
Construction Project Commitments
(Expressed in Thousands)

Project	Description	Remaining Construction Commitment
02156050	State Capitol Restoration	$ 38,688
05225750	U of U – Hospital Expansion	29,086
05027810	WSU – Humanities Building / Chilled Water Plant Design	24,296
05188790	UVSC – Digital Learning Center	21,997
02032750	U of U – Marriott Library Renovation	18,293
06041110	CUCF New 192 Bed Expansion	13,648
03215810	WSU – Student Union Renovation	12,967
05050640	Dixie – Health Sciences Building	11,280
05196750	U of U – New Humanities Building	10,255
03180520	Midway Fish Hatchery	6,946
01283770	USU – Sant Engineering Innovation Building	6,516
02243750	U of U – New Museum of Natural History	5,888
05049730	SUU – Teacher Education Center	4,163
04030750	U of U Sutton Geology and Geophysics Building	4,037
05025110	CUCF – New 288 Bed Facility	2,284
05222300	Monument Valley Health Clinic	1,825
06163660	SLCC – RRC Utility Tunnel	1,719
04141680	SLCC – Jordan Campus Health Sciences Building	1,650
06034900	Clearfield DOT Maintenance Station	1,435
05289770	USU – Romney Stadium Phase II End Zone	1,155
06187310	Heber Wells Space Enclosure	1,133
—	All Others	23,996
	Total Commitments	$ 243,257

NOTE 9. LEASE COMMITMENTS

The State leases office buildings and office and computer equipment. Although the lease terms vary, most leases are subject to annual appropriations from the State Legislature to continue the lease obligations. If an appropriation is reasonably assured, leases are considered noncancellable for financial reporting purposes.

Leases, that in substance are purchases, are reported as capital lease obligations. In the government-wide financial statements and proprietary fund financial statements, assets and liabilities resulting from capital leases are recorded at the inception of the lease at either the lower of fair value or the present value of the future minimum lease payments. The principal portion of lease payments reduces the liability, and the interest portion is expensed.

On the governmental fund financial statements, both the principal and interest portions of capital lease payments are recorded as expenditures of the applicable governmental function.

The primary government's capital lease payments were $1.416 million in principal and $1.132 million in interest for fiscal year 2007. As of June 30, 2007, the historical cost of the primary government's assets acquired through capital leases was $26.257 million of which $24.719 million was buildings and $1.538 million was equipment and other depreciable assets. As of June 30, 2007, the accumulated depreciation of the primary government's assets acquired through capital leases was $9.649 million of which $9.017 million was buildings and $632 thousand was equipment and other depreciable assets.

Operating leases contain various renewal options, as well as some purchase options. However, due to the nature of the leases, they do not qualify as capital leases and the related assets and liabilities are not recorded. Any escalation clauses, sublease rentals, and contingent rents were considered immaterial to the future minimum lease payments and current rental expenditures. Operating lease payments are recorded as expenditures or expenses when paid or incurred.

Operating lease expenditures for fiscal year 2007 were $19.995 million for the primary government and $32.445 million for component units. For fiscal year 2006, the operating lease expenditures were $26.206 million for the primary government and $30.931 million for component units. Future minimum lease commitments for noncancellable operating leases and capital leases as of June 30, 2007, were as follows:

Future Minimum Lease Commitments
(Expressed in Thousands)

	Operating Leases			Capital Leases		
Fiscal Year	Primary Government	Component Units	Total	Primary Government	Component Units	Total
2008	$ 20,237	$ 34,860	$ 55,097	$ 2,612	$ 14,928	$ 17,540
2009	16,944	32,015	48,959	2,186	18,044	20,230
2010	11,958	27,097	39,055	2,246	9,872	12,118
2011	8,841	24,119	32,960	1,888	7,429	9,317
2012	5,503	21,350	26,853	1,567	5,713	7,280
2013–2017	12,596	83,932	96,528	7,254	14,156	21,410
2018–2022	4,326	78,028	82,354	6,785	9,023	15,808
2023–2027	872	8,679	9,551	1,450	3,521	4,971
2028–2032	—	460	460	—	—	—
Total Future Minimum Lease Payments	$ 81,277	$ 310,540	$ 391,817	25,988	82,686	108,674
Less Amounts Representing Interest				(7,760)	(15,992)	(23,752)
Present Value of Future Minimum Lease Payments				$ 18,228	$ 66,694	$ 84,922

NOTE 10. LONG-TERM LIABILITIES

A. Changes in Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2007, are presented in the following schedule. As referenced below, certain long-term liabilities are discussed in other Notes to the Financial Statements.

Long-term Liabilities
(Expressed in Thousands)

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities					
General Obligation Bonds	$ 1,377,390	$ —	$ (140,220)	$ 1,237,170	$ 150,660
State Building Ownership Authority Lease Revenue Bonds	293,226	—	(19,688)	273,538	17,268
Net Unamortized Premiums	83,347	—	(16,766)	66,581	—
Deferred Amount on Refunding	(21,546)	—	3,814	(17,732)	—
Capital Leases (Note 9)	19,644	—	(1,416)	18,228	1,590
Contracts Payable	7,936	—	(995)	6,941	1,043
Compensated Absences (Notes 1 and 17)	148,762	98,431	(61,563)	185,630	68,338
Claims	46,725	9,765	(11,735)	44,755	11,929
Arbitrage Liability (Note 1)	—	109	—	109	—
Total Governmental Long-term Liabilities	$ 1,955,484	$ 108,305	$ (248,569)	$ 1,815,220	$ 250,828
Business-type Activities					
Revenue Bonds	$ 2,138,085	$ —	$ (430)	$ 2,137,655	$ 72,145
State Building Ownership Authority Lease Revenue Bonds	37,814	—	(1,262)	36,552	1,687
Net Unamortized Premiums	988	—	(109)	879	—
Deferred Amount on Refunding	(415)	—	50	(365)	—
Claims and Uninsured Liabilities	4,960	97,410	(97,692)	4,678	3,354
Arbitrage Liability (Note 1)	67,845	4,917	(275)	72,487	161
Total Business-type Long-term Liabilities	$ 2,249,277	$ 102,327	$ (99,718)	$ 2,251,886	$ 77,347
Component Units					
Revenue Bonds	$ 1,867,546	$ 527,658	$ (280,121)	$ 2,115,083	$ 142,160
Net Unamortized Premiums/(Discounts)	(110)	2,193	(129)	1,954	(63)
Capital Leases/Contracts Payable (Notes 9 and 10)	98,459	21,511	(47,175)	72,795	13,355
Notes Payable	142,694	8,933	(112,978)	38,649	3,117
Claims	125,793	559,392	(561,906)	123,279	70,193
Leave/Termination Benefits (Note 1)	79,677	57,452	(45,273)	91,856	22,561
Total Component Unit Long-term Liabilities	$ 2,314,059	$ 1,177,139	$ (1,047,582)	$ 2,443,616	$ 251,323

Compensated absences of governmental activities are liquidated in the General Fund, Uniform School Fund, or Transportation Fund according to the applicable employing state agency. Claims liabilities of governmental activities are liquidated in the Risk Management Internal Service Fund.

B. General Obligation Bonds

The State issues general obligation bonds to provide funds for acquisition, construction, and renovation of major capital facilities and for highway construction. In addition, general obligation bonds have been issued to refund general obligation bonds, revenue bonds, and capitalized leases. General obligation bonds are secured by the full faith and credit of the State. Debt service requirements are provided by legislative appropriation from the State's general tax revenues. As of June 30, 2007, the State had $126.206 million and $1.132 billion of authorized but unissued general obligation building and highway bond authorizations remaining, respectively.

General obligation bonds payable consist of the following:

General Obligation Bonds Payable
(Expressed in Thousands)

Bond Issue	Date Issued	Maturity Date	Interest Rate	Original Issue	Balance June 30, 2007
1997 A–E Highway/Capital Facility Issue	07/01/97	2001–2007	4.80% to 5.50%	$ 200,000	$ 10,500
1997 F Highway Issue......................................	08/01/97	2001–2007	5.00% to 5.50%	$ 205,000	17,375
1998 A Highway/Capital Facility Issue............	07/07/98	2001–2008	5.00%	$ 265,000	36,475
2001 B Highway/Capital Facility Issue............	07/02/01	2004–2009	4.50%	$ 348,000	108,425
2002 A Highway/Capital Facility Issue............	06/27/02	2003–2011	3.00% to 5.25%	$ 281,200	74,175
2002 B Refunding Issue..................................	07/31/02	2004–2012	3.00% to 5.38%	$ 253,100	250,700
2003 A Highway/Capital Facility Issue............	06/26/03	2005–2013	2.00% to 5.00%	$ 407,405	306,250
2004 A Refunding Issue..................................	03/02/04	2010–2016	4.00% to 5.00%	$ 314,775	314,775
2004 B Highway/Capital Facility Issue............	07/01/04	2005–2019	4.75% to 5.00%	$ 140,635	118,495
Total General Obligation Bonds Outstanding..............................					1,237,170
Plus Unamortized Bond Premium............					63,139
Less Deferred Amount on Refunding........					(16,286)
Total General Obligation Bonds Payable......................................					$ 1,284,023

General Obligation Bond Issues
Debt Service Requirements to Maturity
For Fiscal Years Ended June 30
(Expressed in Thousands)

Fiscal Year	Principal						
	1997 A–E Highway/ Capital Facility	1997 F Highway Bonds	1998 A Highway/ Capital Facility	2001 B Highway/ Capital Facility	2002 A Highway/ Capital Facility	2002 B Refunding Bonds	2003 A Highway/ Capital Facility
2008	$ 10,500	$ 17,375	$ 17,750	$ 34,650	$ 50,575	$ 120	$ 12,825
2009	—	—	18,725	36,125	5,525	29,455	59,300
2010	—	—	—	37,650	5,750	50,835	61,125
2011	—	—	—	—	6,000	53,670	50,025
2012	—	—	—	—	6,325	56,705	15,100
2013–2017	—	—	—	—	—	59,915	107,875
2018–2022	—	—	—	—	—	—	—
Total	$ 10,500	$ 17,375	$ 36,475	$ 108,425	$ 74,175	$ 250,700	$ 306,250

Continues Below

Fiscal Year	Principal				
	2004 A Refunding Bonds	2004 B Highway/ Capital Facility	Total Principal Required	Interest Required	Total Amount Required
2008	$ —	$ 6,865	$ 150,660	$ 53,100	$ 203,760
2009	—	9,970	159,100	45,845	204,945
2010	—	11,180	166,540	37,897	204,437
2011	39,310	25,755	174,760	29,350	204,110
2012	40,830	30,600	149,560	22,052	171,612
2013–2017	234,635	19,750	422,175	39,281	461,456
2018–2022	—	14,375	14,375	743	15,118
Total	$ 314,775	$ 118,495	$ 1,237,170	$ 228,268	$ 1,465,438

C. **Revenue Bonds**

Revenue bonds payable consists of those issued by the Utah State Building Ownership Authority, the Utah State Board of Regents Student Loan Purchase Program, the Utah Housing Corporation, and the various colleges and universities. These bonds are not considered general obligations of the State.

Governmental Activities

The Utah State Building Ownership Authority (SBOA) has issued bonds for the purchase and construction of facilities to be leased to state agencies and other organizations. The bonds are secured by the facilities and repayment is made from lease income. The outstanding bonds payable at June 30, 2007, are reported as a long-term liability of the governmental activities, except for $36.034 million and $990 thousand which are reported in the Alcoholic Beverage Control Fund, and the Utah Correctional Industries Fund (nonmajor enterprise funds), respectively. These portions are reported as liabilities of the business-type activities on the government-wide statement of net assets.

During fiscal year 2007, the average interest rate for the SBOA Series 2001 C variable rate demand lease revenue bonds was 3.64 percent, there is no stated minimum rate, but the maximum rate is 12 percent. The rate on the bond is reset weekly by the remarketing agent and fluctuates with the general changes in interest rates and the demand for these particular securities. In the applicable debt service requirements to maturity schedule, the interest rate used to project debt service requirements was 3.73 percent, which was the rate in effect at yearend.

Business-type Activities

The Utah State Board of Regents Student Loan Purchase Program bonds were issued to provide funds for student loans and are secured by all assets of the Board of Regents Revenue Bond Funds and by the revenues and receipts derived from such assets. The Board of Regents has also issued a revenue bond for an office facility secured by funds within the Board of Regents budget that would otherwise be expended for rent.

The Student Assistance Programs have $391.635 million of bonds bearing interest at an adjustable rate, which is determined weekly by a remarketing agent. The Programs also have adjustable rate bonds that are set by an auction procedure every 28 days in the amount of $847.1 million and $859.725 million of bonds that are auctioned every 35 days.

Discrete Component Units

The Utah Housing Corporation bonds were issued to provide sources of capital for making housing loans to persons of low or moderate income. The bonds are secured by mortgages, and repayments are made from the mortgage payments.

The colleges and universities issue bonds for various purposes, including student housing, special events centers, and student union centers. The bonds are secured by the related assets, student building fees, and other income of certain college activities.

Revenue bonds payable consist of the following:

Revenue Bonds Payable – Component Units
(Expressed in Thousands)

Bond Issue	Date Issued	Maturity Date	Interest Rate	Original Issue	Balance June 30, 2007
Utah Housing Corporation Issues	1985–2007	2007–2050	Variable and 1.50 % to 9.00 %	$ 2,775,938	$ 1,599,545
Colleges and Universities Revenue Bonds	1987–2007	2007–2035	Variable and 1.90 % to 6.75 %	$ 742,910	515,538
Total Revenue Bonds Outstanding					2,115,083
Colleges and Universities Less Unamortized Bond Premium					1,954
Total Revenue Bonds Payable					$ 2,117,037

Revenue Bonds Payable – Primary Government
(Expressed in Thousands)

Bond Issue	Date Issued	Maturity Date	Interest Rate	Original Issue	Balance June 30, 2007
Governmental Activities					
SBOA Lease Revenue Bonds:					
Series 1992 A	07/15/92	1993–2011	5.30% to 5.75%	$ 26,200	$ 9,760
Series 1992 B	07/15/92	1994–2011	4.00% to 6.00%	$ 1,380	530
Series 1993 A	12/01/93	1995–2013	4.50% to 5.25%	$ 6,230	2,615
Series 1998 A	07/01/98	1999–2008	3.75% to 5.00%	$ 24,885	740
Series 1998 C	08/15/98	2000–2019	3.80% to 5.50%	$ 101,557	96,170
Series 1999 A	08/01/99	2001–2009	5.25%	$ 6,960	565
Series 2001 A	11/21/01	2005–2021	4.00% to 5.00%	$ 69,850	61,550
Series 2001 B	11/21/01	2002–2024	3.00% to 5.75%	$ 14,240	12,740
Series 2001 C	11/21/01	2005–2022	variable	$ 30,300	30,300
Series 2003	12/30/03	2005–2025	2.00% to 5.00%	$ 20,820	18,610
Series 2004 A	10/26/04	2005–2027	3.00% to 5.25%	$ 32,458	31,433
Series 2004 B	10/26/04	2005–2013	3.00% to 5.00%	$ 8,920	8,525
Total Lease Revenue Bonds Outstanding					273,538
Plus Unamortized Bond Premium					3,442
Less Deferred Amount on Refunding					(1,446)
Total Lease Revenue Bonds Payable					$ 275,534
Business-type Activities					
Student Assistance Programs:					
Series 1988 and 1993 Board of Regents Student Loan Indentures	1988–2006	1998–2046	Variable and 4.45 % to 6.00 %	$ 2,181,050	$ 2,127,725
Office Facility Bond Fund	2002, 2004	2003–2024	3.00 % to 5.13 %	$ 11,780	9,930
Total Revenue Bonds Outstanding					2,137,655
Plus Unamortized Bond Premium					42
Total Revenue Bonds Payable					$ 2,137,697
SBOA Lease Revenue Bonds:					
Series 1997 A	12/01/97	1999–2008	4.60% to 4.70%	$ 4,150	$ 195
Series 1998 A	07/01/98	1999–2008	4.40% to 5.00%	$ 825	35
Series 1998 C	08/15/98	2000–2019	3.80% to 5.50%	$ 3,543	3,455
Series 1999 A	08/01/99	2001–2009	5.25%	$ 2,495	220
Series 2001 B	11/21/01	2004–2023	3.25% to 5.25%	$ 11,540	9,920
Series 2003	12/30/03	2005–2025	2.00% to 5.00%	$ 1,905	1,695
Series 2004 A	10/26/04	2005–2025	3.00% to 5.25%	$ 13,347	12,677
Series 2006 A	01/10/06	2006–2027	3.50% to 5.00%	$ 8,355	8,355
Total Lease Revenue Bonds Outstanding					36,552
Plus Unamortized Bond Premium					837
Less Deferred Amount on Refunding					(365)
Total Lease Revenue Bonds Payable					$ 37,024
Total Lease Revenue/ Revenue Bonds Payable					$ 2,174,721

Revenue Bond Issues – Primary Government
Debt Service Requirements to Maturity
For Fiscal Years Ended June 30
(Expressed in Thousands)

	Principal							
Fiscal Year	Student Assistance Programs	1992 A Utah State Building Ownership Authority	1992 B Utah State Building Ownership Authority	1993 A Utah State Building Ownership Authority	1997 A Utah State Building Ownership Authority	1998A Utah State Building Ownership Authority	1998C Utah State Building Ownership Authority	1999A Utah State Building Ownership Authority
2008	$ 72,145	$ 1,735	$ 95	$ 380	$ 195	$ 775	$ 7,500	$ 380
2009	5,355	1,835	100	400	—	—	7,895	405
2010	76,610	1,945	105	425	—	—	8,330	—
2011	510	2,060	110	445	—	—	8,810	—
2012	535	2,185	120	470	—	—	8,740	—
2013–2017	28,060	—	—	495	—	—	47,450	—
2018–2022	3,895	—	—	—	—	—	10,900	—
2023–2027	135,535	—	—	—	—	—	—	—
2028–2032	181,055	—	—	—	—	—	—	—
2033–2037	370,100	—	—	—	—	—	—	—
2038–2042	668,855	—	—	—	—	—	—	—
2043–2047	595,000	—	—	—	—	—	—	—
Total	$2,137,655	$ 9,760	$ 530	$ 2,615	$ 195	$ 775	$ 99,625	$ 785

Continues Below

	Principal						
Fiscal Year	2001 A Utah State Building Ownership Authority	2001 B Utah State Building Ownership Authority	2001 C Utah State Building Ownership Authority	2003 Utah State Building Ownership Authority	2004 A Utah State Building Ownership Authority	2004B Utah State Building Ownership Authority	2006A Utah State Building Ownership Authority
2008	$ 3,250	$ 965	$ —	$ 1,210	$ 895	$ 1,295	$ 280
2009	3,375	1,005	—	1,240	1,930	1,340	290
2010	3,500	1,055	—	1,275	2,405	1,380	300
2011	3,650	1,090	—	1,325	2,550	1,455	315
2012	3,800	1,135	—	1,375	2,665	1,500	325
2013–2017	22,025	6,415	—	4,990	15,475	1,555	1,825
2018–2022	21,950	8,100	30,300	5,335	10,800	—	2,230
2023–2027	—	2,895	—	3,555	7,390	—	2,790
2028–2032	—	—	—	—	—	—	—
2033–2037	—	—	—	—	—	—	—
2038–2042	—	—	—	—	—	—	—
2043–2047	—	—	—	—	—	—	—
Total	$ 61,550	$ 22,660	$ 30,300	$ 20,305	$ 44,110	$ 8,525	$ 8,355

Continues Below

Revenue Bond Issues – Primary Government (continued)
Debt Service Requirements to Maturity
For Fiscal Years Ended June 30
(Expressed in Thousands)

Fiscal Year	Total Principal Required	Interest Required	Total Amount Required
2008	$ 91,100	$ 113,100	$ 204,200
2009	25,170	109,716	134,886
2010	97,330	107,839	205,169
2011	22,320	104,423	126,743
2012	22,850	103,303	126,153
2013–2017	128,290	497,294	625,584
2018–2022	93,510	472,054	565,564
2023–2027	152,165	444,873	597,038
2028–2032	181,055	407,416	588,471
2033–2037	370,100	348,696	718,796
2038–2042	668,855	234,501	903,356
2043–2047	595,000	109,132	704,132
Total	$2,447,745	$3,052,347	$ 5,500,092

Revenue Bond Issues – Component Units
Debt Service Requirements to Maturity
For Fiscal Years Ended June 30
(Expressed in Thousands)

	Principal						
Fiscal Year	Utah Housing Corporation	University of Utah	Utah State University	Nonmajor Component Units	Total Principal Required	Interest Required	Total Amount Required
2008	$ 122,274	$ 11,612	$ 3,178	$ 5,096	$ 142,160	$ 94,192	$ 236,352
2009	37,757	12,334	3,319	5,459	58,869	94,221	153,090
2010	40,569	12,953	3,462	5,725	62,709	91,165	153,874
2011	40,715	14,724	3,629	5,257	64,325	88,220	152,545
2012	39,507	13,358	3,792	6,163	62,820	85,192	148,012
2013–2017	182,230	69,848	20,445	21,080	293,603	382,155	675,758
2018–2022	179,845	68,327	12,710	17,752	278,634	312,003	590,637
2023–2027	243,540	70,188	12,280	10,835	336,843	237,023	573,866
2028–2032	328,424	71,757	11,765	9,930	421,876	146,310	568,186
2033–2037	284,627	—	8,560	—	293,187	54,113	347,300
2038–2042	66,726	—	—	—	66,726	15,380	82,106
2043–2047	25,421	—	—	—	25,421	5,240	30,661
2048–2052	7,910	—	—	—	7,910	876	8,786
Total	$ 1,599,545	$ 345,101	$ 83,140	$ 87,297	$ 2,115,083	$ 1,606,090	$ 3,721,173

D. **Conduit Debt Obligations**

Of the Utah Housing Corporation (component unit) bonds outstanding, $305.578 million were issued as multi-family purchase bonds. Of those bonds, $303.888 million are conduit debt obligations issued on behalf of third parties. The Corporation is not obligated in any manner for repayment of the conduit debt. However, in accordance with the Corporation's accounting policies, the conduit debt is reported in the Corporation's financial statements.

In 1985, the State Board of Regents authorized the University of Utah (component unit) to issue Variable Rate Demand Industrial Development Bonds for the Salt Lake City Marriott University Park Hotel separate from the University. The bonds are payable solely from revenues of the hotel. The bonds do not constitute a debt or pledge of the faith and credit of the University of Utah or the State and, accordingly, have not been reported in the accompanying financial statements. The outstanding balance of the bonds at June 30, 2007, is $6.035 million.

E. **Demand Bonds**

- The Utah State Building Ownership Authority (SBOA) issued $30.3 million Series 2001 C variable rate demand lease revenue bonds. The bonds are subject to purchase upon not less than seven days notice of tender from the bondholder or in case the bonds cannot be remarketed. The remarketing agent is paid a fee of 5 basis points of the bonds outstanding on a quarterly basis.

  In the case that the bonds cannot be remarketed, the SBOA has an irrevocable direct-pay letter of credit with Landesbank Hessen-Thüringen Girozentrale (Helaba) acting through its New York Branch in the amount of $30.828 million, which is an amount sufficient to pay principal and 53 days of accrued interest at 12 percent. In consideration for the letter of credit, Helaba receives a fee of 18.5 basis points paid on a quarterly basis. The letter of credit expires on December 31, 2015, and as of June 30, 2007, the SBOA has not had to draw any funds for bondholder tenders or a failed remarketing.

  The letter of credit also has a take-out agreement for the bonds that allows the SBOA to pay the bonds that Helaba holds (bank bonds) over a five-year period in approximately equal payments. The rate in effect for bank bonds for the first 90 days is the base rate, which is the higher of the Federal Funds rate plus 50 basis points or the Prime Rate, up to a maximum of 12 percent per annum. The interest rate for bank bonds held longer than 90 days is the base rate plus 2 percent. If the take-out agreement were in effect and assuming all the bonds were not remarketed, the SBOA would pay debt service of $8.406 million a year for five years, based on the maximum rate.

- The Student Loan Purchase Program had $391.635 million of demand bonds outstanding at June 30, 2007, subject to purchase on the demand of the holder at a price equal to principal plus accrued interest, on seven days notice and delivery to the Board's remarketing agent.

  In the event bonds cannot be remarketed, the Board has standby bond purchase agreements and a letter of credit agreement sufficient to pay the purchase price of bonds delivered to it. The Board pays quarterly fees to maintain the standby bond purchase agreements and letter of credit on the demand bonds.

  An unused irrevocable direct-pay letter of credit expiring November 15, 2011, in the amount of $37.462 million supports the Series 1993 A bonds of $35 million. Standby bond purchase agreements of $25.336 million expiring November 20, 2013 to support the Series 1988 C bonds of $25 million, $85.294 million expiring November 16, 2025 to support the Series 1995 L bonds of $79.5 million, $108.42 million expiring April 29, 2025 to support the Series 1996 Q and 1997 R bonds of $101.055 million and $158.753 million expiring February 11, 2024 to support the 2005 Series W and X bonds of $151.08 million. As of June 30, 2007, the Board had not drawn any funds under the standby bond purchase agreements or the letter of credit.

- The Utah Housing Corporation (component unit) had $761.32 million of bonds outstanding at June 30, 2007, subject to purchase on the demand of the holder at a price equal to principal plus accrued interest, on delivery to the remarketing agent.

  In the event the variable rate bonds cannot be remarketed, the Corporation has entered into various irrevocable Standby Bond Purchase Agreements (Liquidity Facility) with five different banks totaling $960 million. These Agreements provide that these institutions will provide funds to purchase the variable rate bonds that have been tendered and not remarketed. These liquidity providers receive a fee ranging from 12.5 to 17.5 basis points of the outstanding amount of the variable rate bonds paid on a quarterly basis. The Corporation has not drawn on any of the facilities to date.

- The University of Utah (component unit) Series 1997 A bonds in the amount of $12 million currently bear interest at a weekly rate in accordance with bond provisions. When a weekly rate is in effect, the bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days notice and delivery to the University's tender agent. If the bonds cannot be remarketed, the tender agent is required to draw on an irrevocable standby bond purchase agreement to pay the purchase price of the bonds delivered to it. The standby bond purchase agreement is with J.P. Morgan Chase Bank and is valid through July 30, 2010. No funds have been drawn against the standby bond purchase agreement. The interest requirement for the Series 1997 A Bonds is calculated using an interest rate of 3.73 percent, which is the rate in effect as of June 30, 2007.

  The University's Hospital Revenue Bonds Series 2006 B in the amount of $20.24 million currently bear interest at a daily rate in accordance with the bond provisions. When a daily rate is in effect, these bonds are also subject to purchase on the demand of the holder at a price equal to principal plus accrued interest. The University's remarketing agent is authorized to use its best efforts to sell the repurchased bonds at a price equal to this same amount plus accrued interest. If the bonds cannot be remarketed, the tender agent is required to draw on an irrevocable standby bond purchase agreement to pay the purchase price of the bonds delivered to it. This agreement is with DEPFA bank and is valid through October 25, 2013. No funds have been drawn against the standby purchase agreement. The interest requirement for the bonds is calculated using an annualized interest rate of 3.9 percent which is the rate effective at June 30, 2007.

F. Defeased Bonds and Bond Refunding

On November 1, 2006, the Utah State Building Ownership Authority cash defeased $2.925 million of 1998 C Lease Revenue Bonds and $170 thousand of 1996 A Lease Revenue Bonds at a net cost of $3.298 million. These funds were paid to an escrow agent to be placed in an irrevocable trust account to provide for the debt service payments on the defeased bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Statement of Net Assets.

In prior years, the State defeased certain general obligation and revenue bonds by placing the proceeds of new bonds and other monies available for debt service in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Statement of Net Assets. At June 30, 2007, the total amount outstanding of defeased general obligation bonds was $570.21 million. At June 30, 2007, the total amount outstanding of defeased revenue bonds was $21.455 million.

In prior years, component units defeased certain revenue bonds by placing the proceeds of new bonds and various bond reserves in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the component unit column on the Statement of Net Assets. At June 30, 2007, $187.541 million of college and university bonds outstanding are considered defeased.

G. Contracts Payable

Component unit capital leases/contracts payable include $6.101 million in life annuity contracts.

H. Notes Payable

The notes payable balance consists of notes issued by component units for the purchase of buildings and equipment. The notes bear various interest rates and will be repaid over the next 18 years. They are secured by the related assets.

Notes Payable Debt Service Requirements to Maturity
Component Units
For Fiscal Years Ending June 30
(Expressed in Thousands)

	Principal						
Fiscal Year	**Utah Housing Corporation**	**University of Utah**	**Utah State University**	**Nonmajor Component Units**	**Total Principal Required**	**Interest Required**	**Total Amount Required**
2008	$ 24	$ 965	$ 1,512	$ 616	$ 3,117	$ 2,017	$ 5,134
2009	27	902	1,564	622	3,115	1,847	4,962
2010	30	849	1,557	997	3,433	1,671	5,104
2011	33	849	1,517	431	2,830	1,481	4,311
2012	36	803	1,458	237	2,534	1,327	3,861
2013–2017	135	4,981	6,662	621	12,399	4,610	17,009
2018–2022	—	3,868	5,212	9	9,089	1,449	10,538
2023–2027	—	—	2,132	—	2,132	85	2,217
Total	$ 285	$ 13,217	$ 21,614	$ 3,533	$ 38,649	$ 14,487	$ 53,136

I. **Debt Service Requirements for Derivatives**

Swap Payments and Associated Debt — As explained in Note 3.D., Utah Housing Corporation (major component unit) had entered into 68 separate pay-fixed, receive-variable interest rate swaps and an interest rate cap agreement as of June 30, 2007. Using rates as of June 30, 2007, debt service requirements of the Corporation's outstanding variable-rate debt and net swap payments are summarized below. As rates vary, variable-rate bond interest payments and net swap payments will vary. The principal, interest and net swap interest are included in the Component Unit debt service schedule presented on page 93 for Utah Housing Corporation.

Utah Housing Corporation
Swap Payments and Associated Debt
For Fiscal Years Ending June 30
(Expressed in Thousands)

Fiscal Year	Variable Rate Bonds Principal	Variable Rate Bonds Interest	Interest Rate Swaps, Net	Total
2008	$ 14,680	$ 27,169	$ 3,594	$ 45,443
2009	3,170	26,512	4,673	34,355
2010	3,135	26,363	4,658	34,156
2011	3,150	26,217	4,634	34,001
2012	2,200	26,072	4,621	32,893
2013–2017	23,320	128,494	22,551	174,365
2018–2022	75,475	119,775	20,262	215,512
2023–2027	125,355	101,222	16,146	242,723
2028–2032	225,215	68,992	8,677	302,884
2033–2037	196,625	23,605	873	221,103
2038–2039	18,430	833	(159)	19,104
Total	$ 690,755	$ 575,254	$ 90,530	$ 1,356,539

NOTE 11. GOVERNMENTAL FUND BALANCES AND NET ASSETS RESTRICTED BY ENABLING LEGISLATION

A. Governmental Fund Balances – Reserved and Designated

The State's reserved fund balances represent: (*1*) **Nonlapsing Appropriations** which include continuing appropriations or nonlapsing funds, encumbrances for construction contracts in the capital projects funds, and limited encumbrances in the general and special revenue funds; or (*2*) **Restricted Purposes** which include fund balances that are legally restricted for other purposes, assets restricted by bond agreements or other external restrictions, and those portions of fund balance that are not available for appropriation or expenditure, such as loans to internal service funds. A summary of the nature and purpose of these reserves by fund type at June 30, 2007, follows:

Reserved Fund Balances
(Expressed in Thousands)

	Nonlapsing Appropriations	Restricted Purposes	Total Reserved
General Fund:			
Legislature	$ 4,409	$ —	$ 4,409
Governor	10,010	12,615	22,625
Elected Officials	61,373	1	61,374
Administrative Services	4,902	1,495	6,397
Tax Commission	8,991	15,777	24,768
Human Services	9,313	5,524	14,837
Corrections	7,771	—	7,771
Public Safety	27,325	12,377	39,702
Courts	1,328	8,626	9,954
Health	4,689	13,494	18,183
Environmental Quality	747	7,995	8,742
Higher Education	567	—	567
Employment and Family Services	2,605	17,842	20,447
Natural Resources	18,548	22,650	41,198
Community and Culture	5,862	2,414	8,276
Business, Labor, and Agriculture	12,207	11,451	23,658
Industrial Assistance Account	—	32,528	32,528
Loans to Internal Service Funds	—	13,512	13,512
Tobacco Settlement Funds	—	954	954
Oil Overcharge Funds	—	5,826	5,826
Mineral Bonus Account	—	29,325	29,325
Other Purposes	3,313	13,234	16,547
Total	$ 183,960	$ 227,640	$ 411,600
Uniform School Fund:			
Minimum School Program	$ 42,160	$ —	$ 42,160
State Office of Education	22,104	—	22,104
School Building Program	—	8,870	8,870
School Land Interest	—	29,043	29,043
Loans to Internal Service Funds	—	23	23
Total	$ 64,264	$ 37,936	$ 102,200
Transportation Fund:			
Transportation	$ 20,243	$ 8,028	$ 28,271
Public Safety	—	8,818	8,818
Corridor Preservation	—	9,270	9,270
Aeronautical Programs	—	4,926	4,926
Total	$ 20,243	$ 31,042	$ 51,285
Transportation Investment Fund:			
Centennial Highway Program	$ —	$ 110,891	$ 110,891
Trust Lands Fund:			
Funds Held as Permanent Investments	$ —	$ 983,881	$ 983,881
Non-major Governmental Funds:			
Capital Projects	$ 243,256	$ 130	$ 243,386
Debt Service	—	5,733	5,733
Tobacco Settlement Funds	—	33,221	33,221
Environmental Reclamation	—	20,020	20,020
Other Purposes	—	7,990	7,990
Total	$ 243,256	$ 67,094	$ 310,350

Designated Fund Balances
(Expressed in Thousands)

	General Fund	Education Fund	Uniform School Fund	Transportation Fund
Designated for:				
Budget Reserve (Rainy Day) Account	$ 170,638	$ —	$ —	$ —
Education Budget Reserve Account	—	142,808	—	—
Disaster Recovery Account	33,615	—	—	—
Postemployment and Other Liabilities	173,848	231,070	1,672	49,787
Fiscal Year 2007 Appropriations:				
Line Item Appropriations	223,551	192,794	370,905	—
Industrial Assistance Account	1,513	—	—	—
Debt Service	—	—	—	—
Total	$ 603,165	$ 566,672	$ 372,577	$ 49,787

Continues Below

	Transportation Investment Fund	Nonmajor Governmental Funds	Total Governmental Funds
Designated for:			
Budget Reserve (Rainy Day) Account	$ —	$ —	$ 170,638
Education Budget Reserve Account	—	—	142,808
Disaster Recovery Account	—	—	33,615
Postemployment and Other Liabilities	18,917	—	475,294
Fiscal Year 2007 Appropriations:			
Line Item Appropriations	—	—	787,250
Industrial Assistance Account	—	—	1,513
Debt Service	—	17,801	17,801
Total	$ 18,917	$ 17,801	$ 1,628,919

B. **Net Assets Restricted by Enabling Legislation**

The State's net assets restricted by enabling legislation represent resources which a party external to a government—such as citizens, public interest groups, or the judiciary—can compel the government to use only for the purpose specified by the legislation.

The government-wide Statement of Net Assets reports $4.424 billion of restricted net assets, of which $15.382 million is restricted by enabling legislation.

NOTE 12. DEFICIT NET ASSETS AND FUND BALANCE

Funds reporting a deficit total net assets position at June 30, 2007, are (in thousands):

Private Purpose Trust Funds:		
Employers' Reinsurance	$	(74,301)
Petroleum Storage Tank	$	(32,842)

The deficit in the Employers' Reinsurance Trust represents the unfunded portion of the actuarial estimate of claims incurred. The Employers' Reinsurance Trust claims are funded from assessments on workers' compensation insurance. The Utah Labor Commission sets the rate up to the maximum established by the Legislature to keep current revenues at a level sufficient to cover current cash disbursements. State law limits the State's liability to the cash or assets in the Employers' Reinsurance Trust only. State law also limits the Trust's liability to claims resulting from industrial accidents or occupational diseases occurring on or before June 30, 1994. For claims resulting from accidents or diseases on or after July 1, 1994, the employer or its insurance carrier is liable for resulting liabilities.

The Petroleum Storage Tank Trust covers the clean-up costs of leaks from state-approved underground petroleum storage tanks. The assets in the fund are more than adequate to pay current claims. Unfunded future claims will be funded by future revenues.

Funds/activities reporting a deficit position in the unrestricted portion of their net assets at June 30, 2007, are (in thousands):

Internal Service Funds:		
General Services	$	(397)
Fleet Operations	$	(11,913)

The Internal Service Funds deficits are mainly due to the significant investment in capital assets required for these operations. The deficits will be covered by future charges for services. Management may also seek rate increases to help reduce these deficits.

In addition, the Capital Projects – General Government and State Building Ownership Authority Funds (nonmajor governmental funds) reported a $107.601 million and $23 thousand deficit unreserved undesignated fund balance, respectively, as a result of outstanding encumbrances on various capital projects. Appropriations and bond proceeds available in the next fiscal year will fund these deficits.

NOTE 13. INTERFUND TRANSFERS

Transfers between funds occur when one fund collects revenue and transfers the assets to another fund for expenditure or when one fund provides working capital to another fund. All transfers must be legally authorized by the Legislature through statute or an *Appropriation Act.* Interfund transfers for the fiscal year ended June 30, 2007, are as follows (in thousands):

	Transfers In: Governmental Funds					
Transfers Out:	**General Fund**	**Education Fund**	**Uniform School Fund**	**Transportation Fund**	**Transportation Investment Fund**	**Trust Lands Fund**
General Fund	$ —	$ —	$ 11,147	$ 91,830	$ 256,000	$ 26
Education Fund	481,626	—	2,189,700	—	—	—
Uniform School Fund	49,053	1,054	—	—	—	—
Transportation Fund	36,940	—	—	—	7,684	—
Transportation Investment Fund	—	—	—	55,000	—	—
Nonmajor Governmental Funds	6,409	—	—	—	—	—
Unemployment Compensation	5,327	—	—	—	—	—
Water Loan Programs	3,371	—	—	—	—	—
Nonmajor Enterprise Funds	66,545	—	—	—	—	28,381
Total Transfers In	$ 649,271	$ 1,054	$ 2,200,847	$ 146,830	$ 263,684	$ 28,407

Continues Below

	Transfers In: Governmental Funds	Enterprise Funds			
Transfers Out:	**Nonmajor Governmental Funds**	**Water Loan Programs**	**Nonmajor Enterprise Funds**	**Internal Service Funds**	**Total Transfers Out**
General Fund	$ 173,697	$ 1,582	$ 55,343	$ 230	$ 589,855
Education Fund	116,016	—	—	—	2,787,342
Uniform School Fund	—	—	—	—	50,107
Transportation Fund	9,684	—	—	—	54,308
Transportation Investment Fund	127,977	—	—	—	182,977
Nonmajor Governmental Funds	3,574	—	—	43	10,026
Unemployment Compensation	—	—	—	—	5,327
Water Loan Programs	—	—	—	—	3,371
Nonmajor Enterprise Funds	—	—	—	79	95,005
Total Transfers In	$ 430,948	$ 1,582	$ 55,343	$ 352	$ 3,778,318

Transfers from major governmental funds to nonmajor governmental funds are primarily for capital facility construction and debt service expenditures. Transfers from the General Fund to nonmajor enterprise funds are primarily mineral lease royalties used to make loans and grants to local governments through the Community Impact Loan Fund. Transfers from nonmajor enterprise funds to the General Fund are mostly liquor profits from the Alcoholic Beverage Control Fund that are required by statute to be deposited in the General Fund. All other transfers are made to finance various programs as authorized by the Legislature.

During fiscal year 2007, the Legislature authorized payments of $721.005 million to the Colleges and Universities. Payments to Colleges and Universities are reported as expenditures in both the General Fund fund statements and the Governmental Activities column of the Statement of Activities. They are also reported as revenues in the Component Units column of the Statement of Activities.

NOTE 14. LITIGATION, CONTINGENCIES, AND COMMITMENTS

A. Litigation

The State is involved in various legal actions arising in the ordinary course of business. The State is vigorously contesting all of these matters, but as of this date it is not possible to determine the outcome of these proceedings. In the opinion of the Attorney General and management, the ultimate disposition of these matters will not have a material adverse effect on the State's financial position.

- Members of the Navajo Nation allege the State of Utah has mismanaged Navajo Nation Trust Fund monies. The plaintiffs are seeking an accounting of the legitimacy of the fund's receipts and disbursements, and damages of $142 million including interest and attorneys' fees.

- A lawsuit was filed by the Tobacco Companies against the 45 states participating in a master settlement agreement in an effort to recoup tobacco settlement payments made in prior years. The plaintiffs allege that they are entitled to a non-participating manufacturer adjustment that will allow them to take a credit against these payment obligations. The dispute is currently subject to arbitration. It is impossible to determine the potential liability; however, any settlement will be a reduction in future state tobacco receipts.

- In addition to the items above, the State is contesting other legal actions totaling over $37.968 million plus attorneys' fees and interest and other cases where the amount of potential loss is undeterminable.

B. Contingencies

- Financial and compliance audits (Single Audit) of federal grants, contracts, and agreements were conducted under the provisions of the Federal Office of Management and Budget's circulars. As a result of the audits, the allowability of $13.011 million of federal expenditures is in question. These costs will be contested with the federal agency involved, and management estimates the liability to be less than the questioned amounts. In addition, a program compliance audit by the federal government is in progress; however, an estimate of any potential disallowances on this audit and findings on other audits on noncompliance cannot be estimated as to the potential liability. The Single Audit for the fiscal year ended June 30, 2007, is in process and management expects proposed disallowances to be immaterial.

- Management's estimated liability for the Petroleum Storage Tank Trust (private purpose trust fund) is highly sensitive to change based on the short period of historical data and the uncertainties in estimating costs. Since it is not possible to determine the occurrence date of a leak in an underground storage tank, it is not possible to estimate the number or the associated costs of leaks that have not been detected.

- The Utah Department of Transportation (UDOT) plans on seeking reimbursement from the Federal Highway Administration (FHWA) for approximately $15 million for fiscal year 2008. The State received $24.024 million in fiscal year 2007. The related costs were incurred by the State as a result of the I-15 reconstruction project and were originally paid using state funds. UDOT has not recorded an accounts receivable for these future reimbursement requests because the requests are contingent upon sufficient future federal funds and federal obligation authority becoming available and future approval by the FHWA.

- The State is totally self-insured against liability claims and up to $3.5 million in property claims. According to an actuarial study and other known factors, $44.755 million exists as either incurred but unfiled or unpaid claims. This amount is reported as a liability of the Department of Administrative Services' Risk Management Fund (internal service fund).

- The Utah School Bond Guaranty Act (*Utah Code Annotated, 1953*, as amended, Sections 53A–28–101 to 402), which took effect on January 1, 1997, pledges the full faith, credit, and unlimited taxing power of the State to guaranty full and timely payment of the principal and interest on general obligation bonds issued by qualifying local school boards. The primary purpose of the Guaranty Act is to reduce borrowing costs for local school boards by providing credit enhancement for Guarantied Bonds.

  In the event a school board is unable to make the scheduled debt service payments on its Guarantied Bonds, the State is required to make such payments in a timely manner. For this purpose, the State may use any available monies, may use short-term borrowing from the State Permanent School Fund (part of the permanent Trust Lands Fund), or may issue short-term general obligation notes. The local school board remains liable to the State for any such payments on Guarantied Bonds. Reimbursements to the State may be obtained by intercepting payment of state funds intended for the local school board. The State may also compel the local school board to levy a tax sufficient to reimburse the State for any guaranty payments.

  The State Superintendent of Public Instruction is charged with monitoring the financial condition of local school boards and reporting, at least annually, its conclusions to the Governor, the Legislature, and the State Treasurer. The State Superintendent must report immediately any circumstances which suggest a local school board may not be able to pay its debt service obligations when due. The State does not expect that it will be required to advance monies for the payment of debt service on Guarantied Bonds for any significant period of time.

  Local school boards have $2.004 billion principal amount of Guarantied Bonds outstanding at June 30, 2007. The State cannot predict the amount of bonds that may be guarantied in future years, but no limitation is currently imposed by the Guaranty Act.

- The Attorney General of the State sued the tobacco industry for medical costs related to smoking. The State of Utah has signed on to a master settlement agreement along with 45 other states. The major tobacco manufacturers and most of the smaller manufacturers have joined the agreement. The State received $27.244 million from tobacco companies in fiscal year 2007 and expects to receive approximately $45.579 million in fiscal year 2008. Annual payments will be adjusted for factors such as inflation, decreased sales volume, previously settled law suits, disputed payments, and legal fees.

C. **Commitments**

- At June 30, 2007, the Industrial Assistance Program of the General Fund had grant commitments of $1.513 million, contingent on participating companies meeting certain performance criteria.

- Utah Retirement Systems (pension trust funds) has at its yearend December 31, 2006, committed to fund certain private equity partnerships and real estate projects for an amount of $3.803 billion. Funding of $2.522 billion has been provided, leaving an unfunded commitment of $1.281 billion as of December 31, 2006, which will be funded over the next five years.

- As of June 30, 2007, the Utah Housing Corporation (major component unit) has committed to purchase mortgages under the warehouse loans and the Single-Family Mortgage Purchase Program in the amount of $44.514 million. The Corporation has a Revolving Credit Loan with a community development company in the amount of $2.5 million due April 30, 2008. At June 30, 2007, the outstanding balance was $693 thousand and bears interest at a calculated LIBOR rate advance or base rate advance (7.82 percent at June 30, 2007).

- At June 30, 2007, the enterprise funds had loan commitments of approximately $214.779 million and grant commitments of approximately $54.344 million.

- At June 30, 2007, the Utah Higher Education Assistance Authority Student Loan Guarantee Program (Student Assistance Programs, major enterprise fund) had guaranteed student loans outstanding with an original principal amount of approximately $2.155 billion. Also, at June 30, 2007, the Student Assistance Programs had commitments to purchase approximately $374.334 million in student loans and provide approximately $11.236 million in reductions to borrower loan balances.

- At June 30, 2007, the Utah Department of Transportation had construction and other contract commitments of $593.701 million, of which $242.88 million is for Transportation Investment Fund (special revenue fund) projects and $350.821 million is for Transportation Fund (special revenue fund) projects. These commitments will be funded with bonded debt and future appropriations.

NOTE 15. JOINT VENTURE

The Utah Communications Agency Network (UCAN) was created by the State Legislature in 1997 as an independent agency. Its purpose is to provide public safety communications services and facilities on a regional or statewide basis.

UCAN's governing board consists of ten representatives elected by the board, and five state representatives of which four are appointed by the Governor. The State has contracted to purchase communication services from UCAN to meet the needs of law enforcement officers in the Departments of Public Safety, Corrections, Natural Resources, and other smaller state agencies.

In fiscal year 1998 the State provided startup capital of $185 thousand. UCAN receives federal funds as a subrecipient of grants awarded to the Department of Public Safety. UCAN also may receive legal counsel from the Attorney General's Office at no cost. Contracts with state agencies are estimated to provide over 30 percent of UCAN's operating revenues.

UCAN had $8.72 million of revenue bonds outstanding at June 30, 2007. UCAN's debt is not a legal obligation of the State; however, if UCAN cannot meet its debt service requirements, state law allows the Governor to request an appropriation to restore the debt service reserve fund to its required level or to meet any principal or interest payment deficiency. The Legislature is not required to make any such appropriation, but if made, UCAN must repay the State within 18 months. To date, UCAN has never requested any such funding from the State and has had sufficient resources to cover its debt service and debt service reserve requirements.

The Utah State Auditor's Office audits UCAN's financial statements. Copies of those statements can be obtained from UCAN's administrative office or from the Utah State Auditor's Office.

NOTE 16. PENSION PLANS

Eligible employees of the State are covered by one of the following retirement plans:

A. **Utah Retirement Systems**

Utah Retirement Systems (URS) was established by Section 49 of *Utah Code Annotated, 1953*, as amended. URS administers the pension systems and plans under the direction of the URS Board, which consists of the State Treasurer and six members appointed by the Governor. URS has a separate accounting system and prepares a separately issued financial report covering all retirement systems and deferred compensation plans it administers. URS maintains records and prepares separately issued financial statements using fund accounting principles and the accrual basis of accounting under which expenses, including benefits and refunds, are recorded when the liability is incurred. Revenues, including contributions, are recorded in the accounting period in which they are earned and become measurable. URS reports on a calendar yearend. The December 31, 2006, financial report has been included in this Comprehensive Annual Financial Report as a pension trust fund for the Utah Retirement Systems (URS) within the fiduciary funds. Copies of the separately issued financial report that include financial statements and required supplemental information may be obtained by writing to Utah Retirement Systems, 560 East 200 South, Salt Lake City, Utah 84102, or by calling 1-800-365-8772.

The URS operations are comprised of the following groups of systems and plans covering substantially all employees of the State, public education, and other political subdivisions of the State:

- The Public Employees Contributory Retirement System (Contributory System); the Public Employees Noncontributory Retirement System (Noncontributory System); and the Firefighters Retirement System (Firefighters System), which are defined-benefit multiple-employer, cost-sharing, public employee retirement systems;

- The Public Safety Retirement System (Public Safety System), which is a defined-benefit mixed agent and cost-sharing, multiple-employer retirement system;

- The Judges Retirement System (Judges System) and the Utah Governors and Legislative Retirement Plan, which are single-employer service employee retirement systems; and five defined contribution plans comprised of the 401(k) Plan, 457 Plan, Roth and Traditional IRA Plans, and Health Reimbursement Arrangement.

Retirement benefits are specified by Section 49 of *Utah Code Annotated, 1953*, as amended. The retirement systems are defined-benefit plans in which the benefits are based on age and/or years of service and highest average salary. Various plan options within the systems may be selected by retiring members. Some of the options require actuarial reductions based on attained age, age of spouse, and similar actuarial factors. A brief summary of eligibility for and benefits of the systems is provided in the following table:

Summary of Eligibility and Benefits

	Contributory System	Noncontributory System	Public Safety System	Firefighters System	Judges System
Highest Average Salary	Highest 5 Years	Highest 3 Years	Highest 3 Years		Highest 2 Years
Years of Service Required and/or Age Eligible for Benefit	30 years any age *20 years age 60 *10 years age 62 4 years age 65	30 years any age *25 years any age *20 years age 60 *10 years age 62 4 years age 65	20 years any age 10 years age 60 4 years age 65		25 years any age *20 years age 55 10 years age 62 6 years age 70
Benefit Percent per Year of Service	1.25% to June 1975 2.00% July 1975 to present	2.00% per year	2.50% per year up to 20 years 2.00% per year over 20 years Benefit cannot exceed 70% of final average salary		5.00% first 10 years 2.25% second 10 years 1.00% over 20 years Benefit cannot exceed 75% of final average salary

*With actuarial reductions

Former governors at age 65 receive $1,160 per month per term. Legislators receive a benefit actuarially reduced at age 62 with ten or more years of service, or an unreduced benefit at age 65 with four or more years of service at the rate of $25.60 per month per year of service. Both the governors' and legislators' benefits are adjusted based on the Consumer Price Index (CPI), limited to 4 percent of the base benefit per year.

Death benefits for active and retired employees are in accordance with retirement statutes. Upon termination of employment, members of the systems may leave their retirement account intact for future benefits based on vesting qualification, or withdraw the accumulated funds in their individual member account and forfeit service credits and rights to future benefits upon which the contributions were based.

As a condition of participation in the systems, employers and/or employees are required to contribute certain percentages of salaries and wages as authorized by statute and specified by the Board. Employee contributions may be paid in part or in whole by the employer. Contributions in some systems are also augmented by fees or insurance premium taxes. Below is a summary of system participants.

Participants
December 31, 2006

	Noncontributory System	Contributory System	Public Safety System	Firefighters System	Judges System	Governors and Legislative Retirement Plan
Number of participating:						
Employers	409	161	123	52	1	1
Members:						
Active	87,219	3,010	7,474	1,684	106	96
Terminated vested	27,273	1,448	1,469	99	10	95
Retirees and beneficiaries:						
Service benefits	28,154	5,852	3,449	1,013	89	223
Disability benefits	—	3	14	72	—	—

Employer contribution rates consist of (***1***) an amount for normal cost (the estimated amount necessary to finance benefits earned by the members during the current year) and (***2***) an amount for amortization of the unfunded, or excess funded actuarial accrued liability over an open 20 year amortization period. These rates are determined using the entry age actuarial cost method with a supplemental present value and the same actuarial assumptions used to calculate the actuarial accrued liability.

The following table presents the State of Utah's actuarially determined employer contributions required and paid to URS. These amounts are equal to the annual pension costs for each of the stated years and all of these amounts were paid for each year. Accordingly, the net pension obligation (NPO) at the end of each year was zero. For the Governors and Legislative Retirement Plan, there has been no annual pension cost, required contributions, or NPO because the plan was overfunded for each of these years.

State of Utah's Employer Contributions
Required and Paid
For Fiscal Years Ended June 30
(Expressed in Thousands)

	Contributory System	Non-contributory System	Public Safety System	Fire-fighters System	Judges System	Total All Systems
Primary Government:						
2007	$ 3,874	$ 94,384	$ 27,208	$ 59	$ 1,238	$ 126,763
2006	$ 4,197	$ 87,445	$ 22,701	$ 49	$ 1,007	$ 115,399
2005	$ 4,335	$ 80,966	$ 21,112	$ 52	$ 814	$ 107,279
2004	$ 3,894	$ 67,745	$ 19,165	$ 50	$ 782	$ 91,636
2003	$ 3,683	$ 60,033	$ 16,713	$ 47	$ 539	$ 81,015
Component Units:						
Colleges and Universities:						
2007	$ 2,200	$ 39,016	$ 488	$ —	$ —	$ 41,704
2006	$ 2,117	$ 37,813	$ 425	$ —	$ —	$ 40,355
2005	$ 2,201	$ 35,195	$ 422	$ —	$ —	$ 37,818
2004	$ 1,996	$ 30,434	$ 411	$ —	$ —	$ 32,841
2003	$ 1,840	$ 29,409	$ 375	$ —	$ —	$ 31,624
Other:						
2007	$ 78	$ 2,722	$ —	$ —	$ —	$ 2,800
2006	$ 60	$ 2,385	$ —	$ —	$ —	$ 2,445
2005	$ 59	$ 2,273	$ —	$ —	$ —	$ 2,332
2004	$ 52	$ 1,913	$ —	$ —	$ —	$ 1,965
2003	$ 44	$ 1,609	$ —	$ —	$ —	$ 1,653
Total Primary Government and Component Units:						
2007	$ 6,152	$ 136,122	$ 27,696	$ 59	$ 1,238	$ 171,267
2006	$ 6,374	$ 127,643	$ 23,126	$ 49	$ 1,007	$ 158,199
2005	$ 6,595	$ 118,434	$ 21,534	$ 52	$ 814	$ 147,429
2004	$ 5,942	$ 100,092	$ 19,576	$ 50	$ 782	$ 126,442
2003	$ 5,567	$ 91,051	$ 17,088	$ 47	$ 539	$ 114,292

The following schedule summarizes contribution rates in effect at December 31, 2006:

Contribution Rates as a Percent of Covered Payroll

System	Member	Employer	Other
Contributory	6.00%	7.58% – 9.73%	—
Noncontributory	—	11.59% – 14.22%	—
Public Safety:			
Contributory	10.50% – 13.74%	11.01% – 22.99%	—
Noncontributory	—	19.99% – 35.71%	—
Firefighters:			
Division A	10.84%	—	12.08%
Division B	8.72%	—	12.08%
Judges:			
Contributory	2.00%	7.79%	18.04%
Noncontributory	—	9.79%	18.04%
Governors and Legislative	—	—	—

Defined Contribution Plans

The 401(k), 457, Roth and Traditional IRA Plans, and Health Reimbursement Arrangement (HRA) administered by URS, in which the State participates, are defined contribution plans. These plans are available as supplemental plans to the basic retirement benefits of the retirement systems. Contributions may be made into the plans subject to plan and Internal Revenue Code limitations. Employer contributions may be made into the plans at rates determined by the employers. There are 354 employers participating in the 401(k) Plan and 154 employers participating in the 457 Plan. There are 132,383 plan participants in the 401(k) Plan, 14,937 participants in the 457 Plan, 714 participants in the Roth IRA Plan, 242 participants in the Traditional IRA Plan, and 183 in the HRA.

After termination of employment, benefits are paid out to individuals in lump sum, or as periodic benefit payments, at the option of the participant based on individual account balances and plan provisions. The defined contribution plans account balances are fully vested to the participants at the time of deposit. Investments of the plans are reported at fair value.

Employees of the State are eligible to participate in the deferred compensation 401(k) Plan. The State and participating employers are required to contribute to employees who participate in the noncontributory retirement plan. The State contributes 1.5 percent of eligible employees' salaries which amount vests immediately. The amounts contributed to the 401(k) Plan during the year ended June 30, 2007, by employees and employers are as follows: for Primary Government, $34.909 million and $15.076 million; for Component Units – Colleges and Universities, $4.428 million and $4.439 million; for Component Units – Other, $977 thousand and $615 thousand; and the combined total for all is $40.314 million and $20.13 million, respectively.

Pension Receivables and Investments

Investments are presented at fair value. The fair value of investments is based on published market prices and quotations from major investment brokers at current exchange rates, as available. Many factors are considered in arriving at that value. Corporate debt securities are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Mortgages have been valued on an amortized cost basis, which approximates market or fair value. The fair value of real estate investments has been estimated based on independent appraisals. For investments where no readily ascertainable market value exists, management, in consultation with their investment advisors, have determined the fair value for the individual investments. Approximately 11 percent of the net assets held in trust for the pension benefits are invested in debt securities of the U.S. Government and its instrumentalities. Of the 11 percent, approximately 3 percent are U.S. Government debt securities and 8 percent are debt securities of the U.S. Government instrumentalities. The systems and plans have no investments of any commercial or industrial organization whose market value equals 5 percent or more of the net assets held in trust for pension benefits. The principal components of the receivables and investment categories are presented below.

Pension Receivables and Investments
(Expressed in Thousands)

	Non-contributory System	Contributory System	Public Safety System	Fire-fighters System	Judges System	Governors and Legislative Retirement Plan
Receivables:						
Member Contributions	$ —	$ 422	$ 238	$ 361	$ —	$ —
Employer Contributions	29,237	618	3,452	—	46	—
Court Fees and Fire Insurance Premium	—	—	—	—	124	—
Investments	213,272	15,053	26,715	10,476	1,731	164
Total Receivables	$ 242,509	$ 16,093	$ 30,405	$ 10,837	$ 1,901	$ 164
Investments:						
Debt Securities	$ 3,635,115	$ 256,560	$ 455,339	$ 178,550	$ 29,499	$ 2,800
Equity Investments	7,819,250	551,866	979,451	384,066	63,453	6,023
Absolute Return	955,173	67,414	119,647	46,917	7,751	736
Private Equity	640,101	45,177	80,179	31,440	5,194	493
Real Estate	2,655,646	187,430	332,650	130,441	21,550	2,046
Mortgage Loans	5,461	386	685	268	44	4
Invested Securities Lending Collateral	1,747,987	123,369	218,956	85,858	14,185	1,346
Investment Contracts	—	—	—	—	—	—
Total Investments	$ 17,458,733	$ 1,232,202	$ 2,186,907	$ 857,540	$ 141,676	$ 13,448

Continues Below

	401(k) Plan	457 Plan	IRA Plans	Health Reimbursement Arrangement	Total December 31, 2006
Receivables:					
Member Contributions	$ —	$ —	$ —	$ —	$ 1,021
Employer Contributions	—	—	—	—	33,353
Court Fees and Fire Insurance Premium	—	—	—	—	124
Investments	48,426	3,067	—	—	318,904
Total Receivables	$ 48,426	$ 3,067	$ 0	$ 0	$ 353,402
Investments:					
Debt Securities	$ 741,381	$ 79,540	$ 5,837	$ —	$ 5,384,621
Equity Investments	1,568,028	161,899	10,159	—	11,544,195
Absolute Return	—	—	—	—	1,197,638
Private Equity	—	—	—	—	802,584
Real Estate	—	—	—	—	3,329,763
Mortgage Loans	—	—	—	—	6,848
Invested Securities Lending Collateral	58,796	5,204	636	—	2,256,337
Investment Contracts	29,800	14,118	—	—	43,918
Total Investments	$ 2,398,005	$ 260,761	$ 16,632	$ 0	$ 24,565,904

Actuarial Methods and Assumptions

The information contained in the Schedules of Funding Progress is based on the actuarial study dated January 1, 2006, and calendar year 2006 activity. The actuarial accrued liability and schedule of funding progress is presented by the retirement systems for the last ten years in their separately presented financial reports based on the report generated by the latest actuarial study, conducted by Gabriel, Roeder, Smith & Company. The actuarial value of assets is based on a smoothed expected investment income rate. Investment income in excess or shortfall of the expected 8 percent return on fair value is smoothed over a five-year period with 20 percent of a year's excess or shortfall being recognized each year, beginning with the current year. All systems use the entry age actuarial cost method and the level percent of payroll amortization method. The remaining amortization period for all systems is open group, 20 years, open period. An inflation rate of 3 percent is used for all systems. Post-retirement cost of living adjustments are non-compounding and are based on the original benefit. The adjustments are also limited to the actual CPI increase for the year with any unusual CPI increase not met carried forward to subsequent years. Below are the Schedules of Funding Progress.

Schedules of Funding Progress
By Valuation Date
(Expressed in Thousands)

	Contributory System	Noncontributory System	Public Safety System	Firefighters System	Judges System	Governors and Legislative Retirement Plan
Actuarial Value of Assets:						
January 1, 2005	$ 933,974	$ 12,212,437	$ 1,524,904	$ 610,688	$ 100,814	$ 10,650
January 1, 2006	$ 951,540	$ 13,069,362	$ 1,633,022	$ 644,496	$ 106,374	$ 10,587
December 31, 2006	$ 1,013,102	$ 14,438,278	$ 1,809,198	$ 705,051	$ 116,879	$ 10,983
Actuarial Accrued Liability (AAL):						
January 1, 2005	$ 1,013,836	$ 13,235,444	$ 1,726,785	$ 578,891	$ 104,210	$ 8,727
January 1, 2006	$ 1,027,309	$ 14,018,540	$ 1,834,452	$ 614,359	$ 106,962	$ 8,974
December 31, 2006	$ 1,060,414	$ 14,980,827	$ 1,964,009	$ 655,264	$ 114,018	$ 8,922
Unfunded Actuarial Accrued Liability (UAAL):						
January 1, 2005	$ 79,862	$ 1,023,007	$ 201,881	$ (31,797)	$ 3,396	$ (1,923)
January 1, 2006	$ 75,769	$ 949,178	$ 201,430	$ (30,137)	$ 558	$ (1,613)
December 31, 2006	$ 47,312	$ 542,549	$ 154,811	$ (49,787)	$ (2,861)	$ (2,061)
Funding Ratios:						
January 1, 2005	92.1 %	92.3 %	88.3 %	105.5 %	96.7 %	122.0 %
January 1, 2006	92.6 %	93.2 %	89.0 %	104.9 %	99.5 %	118.0 %
December 31, 2006	95.5 %	96.4 %	92.1 %	107.6 %	102.5 %	123.1 %
Annual Covered Payroll:						
January 1, 2005	$ 139,362	$ 3,084,317	$ 293,797	$ 79,638	$ 11,646	$ 556
January 1, 2006	$ 137,730	$ 3,165,504	$ 298,756	$ 84,061	$ 11,594	$ 887
December 31, 2006	$ 133,812	$ 3,326,392	$ 316,662	$ 88,682	$ 12,195	$ 860
UAAL as a Percent of Covered Payroll:						
January 1, 2005	57.3 %	33.2 %	68.7 %	(39.9)%	29.2 %	(345.9)%
January 1, 2006	55.0 %	30.0 %	67.4 %	(35.9)%	5.1 %	(181.8)%
December 31, 2006	35.4 %	16.3 %	48.9 %	(56.1)%	(23.5) %	(239.7)%

B. **Teachers Insurance and Annuity Association–College Retirement Equities Fund**

Teachers Insurance and Annuity Association–College Retirement Equities Fund (TIAA–CREF), privately administered defined-contribution retirement plans, provides individual retirement fund contracts for each eligible participating employee. Eligible employees are mainly state college/university faculty and staff. Benefits to retired employees are generally based on the value of the individual contracts and the estimated life expectancy of the employee at retirement and are fully vested from the date of employment. The total current year required contribution and the amount paid is 14.2 percent of the employee's annual salary. The State has no further liability once annual contributions are made.

The total contribution made by the college and university (component units) to the TIAA–CREF retirement system for June 30, 2007 and 2006, were $113.158 million and $105.08 million, respectively.

NOTE 17. OTHER POSTEMPLOYMENT BENEFITS

At the option of individual state agencies, employees may participate in the State's Other Postemployment Benefit Plan (OPEB Plan), a single-employer defined benefit healthcare plan, as set forth in Section 67–19–14(2) of the *Utah Code*. The State administers the OPEB Plan through the State Post-Retirement Benefits Trust Fund, an irrevocable trust, as set forth in Section 67–19d–201 of the *Utah Code*. The trust fund is under the direction of a board of trustees, which consists of the State Treasurer, the Director of the Division of Finance, and the Director of the Governor's Office of Planning and Budget.

Plan assets of the State Post-Retirement Benefits Trust Fund are irrevocable and legally protected from creditors and dedicated to providing postemployment health and life insurance coverage to current and eligible future state retirees in accordance with the terms of the plan. The State Post-Retirement Benefits Trust Fund does not issue a publicly available financial report, but is included in this report of the primary government using the economic resources measurement focus and the accrual basis of accounting under which expenses, including benefits and refunds, are recorded when the liability is incurred. Employer contributions are recorded in the accounting period in which they are earned and become measurable. Investments are reported at fair value and are based on published prices and quotations from major investment brokers at current exchange rates, as available. For investments where no readily ascertainable fair value exists, management, in consultation with their investment advisors have determined the fair values for the individual investments.

Only state employees entitled to receive retirement benefits and hired prior to January 1, 2006, are eligible to receive postemployment health and life insurance benefits from the OPEB Plan. Upon retirement, an employee receives 25 percent of the value of their unused accumulated sick leave as a mandatory employer contribution into a 401(k) account. The employee may exchange one day of remaining unused accumulated sick leave earned *prior* to January 1, 2006, for one month of paid health and life insurance coverage up to age 65. Regardless of the unused sick leave balance, the State will provide postemployment health and life insurance coverage for up to five years (if the employee retired in 2006) or until the employee reaches age 65. This automatic coverage provision will decline by one year each calendar year until it is completely phased out on January 1, 2011. After age 65, the employee may use any remaining unused accumulated sick leave, earned *prior* to January 1, 2006, to exchange for spouse health insurance to age 65, or Medicare supplemental insurance for the employee or spouse. As of December 31, 2006, the date of the latest actuarial valuation, approximately 6,819 retirees and their beneficiaries were receiving state post-retirement health and life insurance benefits, and an estimated 17,126 active state employees are eligible to receive future benefits under the OPEB Plan.

The contribution requirements of employees and the State are established and may be amended by the State Legislature. For retirees that participate in the OPEB Plan, health insurance premiums are paid 100 percent by the State for individuals that retired before July 1, 2000. Individuals retiring thereafter are required to contribute specified amounts monthly, ranging from 2 percent to 7 percent, toward the cost of health insurance premiums. For the year ended June 30, 2007, retirees contributed $962.471 thousand, or approximately 3.9 percent of total premiums, through their required contributions of $7.03 to $72.85 per month depending on the coverage (single, double, or family) and health plan selected.

The State Legislature currently plans to contribute amounts to the trust fund sufficient to fully fund the annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC of $50.433 million is 6.5 percent of annual covered payroll. There are no long-term contracts for contributions to the plan. The following table presents the OPEB cost for the year, the amount contributed and changes in the OPEB Plan for fiscal year 2007 (dollar amount in thousands):

Annual required contribution/OPEB cost	$ 50,433
Contributions made	(51,124)
Increase in net OPEB obligation (asset)	(691)
Net OPEB obligation (asset) – Beginning of year	0
Net OPEB obligation (asset) – End of year	$ (691)

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2007 was as follows (dollar amount in thousands):

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2007	$ 50,433	100%	$ 0

As of December 31, 2006, the actuarial accrued liability (AAL) for benefits was $669.617 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $669.617 million. The covered payroll (annual payroll of active employees covered by the plan) was $748.096 million, and the ratio of the UAAL to the covered payroll was 89.51 percent. The State of Utah implemented the State Post-Retirement Benefits Trust Fund, in April 2007, after the December 31, 2006, actuarial valuation date. At the actuarial valuation date there were no trust fund assets. As of June 30, 2007, there were $28.042 million in net assets.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, is designed to present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2006, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 6 percent investment rate of return per annum (compounded annually, composed of a 3 percent inflation rate and 3 percent real rate of return), net of administrative expenses. The projected annual healthcare cost trend rate is 10 percent initially, reduced by decrements to an ultimate rate of 4.5 percent after eleven years. The UAAL is being amortized as a level dollar amount over an open basis. The remaining amortization period at December 31, 2006, was twenty-five years.

NOTE 18. RISK MANAGEMENT AND INSURANCE

It is the policy of the State of Utah to periodically assess the proper combination of commercial insurance and self-insurance to cover the risk of losses to which it may be exposed. This is accomplished by the State through the Risk Management (internal service fund) and the Public Employees Health Program (component unit). The State is the predominant participant in these programs. The Risk Management Fund manages the general property, auto/physical damage, and liability risk of the State. The Public Employees Health Program manages the health insurance and long-term disability programs of the State. The University of Utah, Utah State University, Southern Utah University, Salt Lake Community College, and Utah Valley State College (component units) each maintain self-insurance funds to manage health care. The University of Utah also maintains a self-insurance fund to manage medical malpractice liabilities.

The State has determined that the risk funds can economically and effectively manage the State's risks internally and have set aside assets for claim settlement. The risks are covered through reserves and commercial insurance for excessive losses. The State has not had any losses or settlements that exceeded the commercial excess insurance coverage for any of the last three years. The risk funds service all claims for risk of loss to which the State is exposed, including general liability, property and casualty, auto/physical damage, group medical and dental, disability, and some environmental claims. They also service the general risk claims for all local school districts and many charter schools within the State. All funds, agencies, public schools, and public authorities of the State may participate in the State's Risk Management and Public Employees Health Programs. The risk funds allocate the cost of providing claims servicing, claims payment, and commercial insurance by charging a "premium" to each agency, public authority, or employee, based on each organization's estimated current year liability and property values. The reserve for liability losses is determined using an independent actuarial study based on past, current, and estimated loss experiences.

Risk Management and Public Employees Health Program claims liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated and include an amount for claims that have been incurred but not reported. Because actual claims liabilities are affected by complex factors including inflation, changes in legal doctrines and insurance benefits, and unanticipated damage awards, the process used in computing claims liabilities does not necessarily result in exact amounts. Claims liabilities are recomputed periodically by actuaries to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Inflation is included in this calculation because reliance is based on historical data that reflects past inflation and other appropriate modifiers. The Risk Management claim liabilities reserves are reported using a discount rate of 5 percent. The Public Employees Health Program long-term disability benefit reserves are reported using a discount rate of 5.5 percent. The primary government and the discrete component units of the State paid premiums to the Public Employees Health Program of $243.882 million and $12.598 million, respectively, for health and life insurance coverage in fiscal year 2007. In addition, the State Department of Health paid $36.092 million in premiums to the Public Employees Health Program for the Children's Health Insurance Program.

All employers who participate in the Utah Retirement Systems are eligible to participate in the Public Employees Long-term Disability Program per Section 49–21–201 of the *Utah Code*. Employees of those state agencies who participate in the program and meet long-term disability eligibility receive benefits for the duration of their disability up to the time they are eligible for retirement or until age 65. Benefits begin after a three-month waiting period and are paid 100 percent by the program. As of June 30, 2007, there are 324 state employees receiving benefits. The program is funded by paying premiums to the Public Employees Health Program (component unit), where assets are set aside for future payments. For the fiscal year ended June 30, 2007, the primary government and the discrete component units of the State paid premiums of $4.884 million and $110.165 thousand, respectively, for the Long-Term Disability Program.

The State covers its workers' compensation risk by purchasing insurance from Workers' Compensation Fund (a related organization). The University of Utah, Utah State University, Southern Utah University, Salt Lake Community College, and Utah Valley State College report claims liabilities if it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The University of Utah and the University of Utah Hospital and Clinics have a "claims made" umbrella malpractice insurance policy in an amount considered adequate by their respective administrations for catastrophic malpractice liabilities in excess of the trusts' fund balances. Amounts for the current year are included below.

The following table presents the changes in claims liabilities balances (short-and long-term combined) during fiscal years ended June 30, 2006, and June 30, 2007:

Changes in Claims Liabilities
(Expressed in Thousands)

	Beginning Balance	Current Year Claims and Changes in Estimates	Claims Payments	Ending Balance
Risk Management:				
2006	$ 44,673	$ 12,758	$ (10,706)	$ 46,725
2007	$ 46,725	$ 9,765	$ (11,735)	$ 44,755
Public Employees Health Program:				
2006	$ 107,396	$ 515,022	$(498,983)	$ 123,435
2007	$ 123,435	$ 537,009	$(539,315)	$ 121,129
College and University Self-Insurance:				
2006	$ 55,413	$ 171,412	$(168,650)	$ 58,175
2007	$ 58,175	$ 210,158	$(196,602)	$ 71,731

NOTE 19. SUBSEQUENT EVENTS

On July 3, 2007, the State issued $75 million of General Obligation Bonds Series 2007. Principal on the bonds is due annually commencing July 1, 2008, through July 1, 2014. Interest rates on the bonds range from 4 to 5 percent, with a "true interest rate" of 4.01 percent after considering premium received upon the sale of the bonds. Proceeds of the bonds will be used for capital facilities and highway projects.

On July 10, 2007, the Utah State Building Ownership Authority issued $15.38 million of Lease Revenue Bonds Series 2007A maturing May 15, 2009 through 2019, and on May 15, 2021, May 15, 2023, May 15, 2025, and May 15, 2028. Interest rates on the bonds range from 4.25 to 5 percent. Proceeds of the bonds will be used for capital facilities projects.

On October 15, 2007, the Utah State Building Ownership Authority cash defeased $4.515 million of 1998 C Lease Revenue Bonds at a net cost of $4.887 million. These funds were paid to an escrow agent to be placed in an irrevocable trust account to provide for the debt service payments on the defeased bonds.

Subsequent to June 30, 2007, Utah Housing Corporation (major component unit) issued $15.75 million Single Family Mortgage Purchase Variable Rate Bonds, 2007 Series D, maturing on January 1, 2039, interest at a variable rate adjusted weekly, and issued $19.25 million Single Family Mortgage Purchase Fixed Rate Bonds, 2007 Series D, maturing on July 1, 2017 and 2036, and on January 1, 2028 and 2033, interest rates of 5.15 percent to 6.39 percent. The Corporation also issued $8.75 million Single Family Mortgage Purchase Variable Rate Bonds, 2007 Series E, maturing on January 1, 2039, interest at a variable rate adjusted weekly, and issued $26.25 million Single Family Mortgage Purchase Fixed Rate Bonds, 2007 Series E, maturing on July 1, 2017 and on January 1, 2028, 2036, and 2039, interest rate of 5.20 percent to 5.35 percent.

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